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THE CURRENT STATUS OF FARM PROGRAMS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

A SERIES OF HEARINGS DEALING WITH THE FARM PROGRAM AND VARIOUS PHASES OF THE FARM PROGRAM AND S. 658, THE FAMILY FARM ACT

MAY 21; JUNE 18, 23, AND 25, 1987

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THE CURRENT STATUS OF FARM PROGRAMS

Testimony From Peter C. Myers, Deputy Secretary of Agriculture

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THURSDAY, MAY 21, 1987

U.S. Senate,
Subcommittee on Agricultural Production
and Stabilization of Prices of the
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:09 a.m., in room SR-332, Russell Senate Office Building, Hon. John Melcher (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Melcher, Conrad, Helms, and Bond.

Also present: Senator Boschwitz.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator Melcher. The subcommittee will come to order.

This morning, we are embarking on a series of hearings dealing with the farm program and the various phases of the farm program involving different commodities.

Our only witness today will be from the Department of Agriculture, the Deputy Secretary of Agriculture, Peter Myers.

On June 18, we have set the second day of hearings for the subcommittee and we will hear from witnesses on the Harkin-Gephardt bill. Following that, there will be other hearings on June 23 and 25, touching on other phases or other proposals for modifying the U.S. agricultural policy.

At the conclusion of the hearings, which will probably be sometime in July, the subcommittee will meet to determine what amendments are necessary for the 1985 act. I believe that there will be amendments, and so the hearings are just not an exercise in oversight. The hearings are probably destined to result in amendments to the Food Security Act of 1985.

We will wait until the conclusion of the hearings to determine what amendments will be made. I bring these points out now, because I think there might be a tendency to think that the subcommittee is merely performing oversight functions. It is both oversight functions and legislative functions.

Senator Bond.

STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator **Bond**. Thank you, Mr. Chairman. It is always a pleasure to welcome Pete Myers who comes as an able representative of the Secretary of Agriculture and a proud son of the State of Missouri.

This meeting is being held at a time when I think we can begin to see reason for some guarded optimism about the status of American agriculture. Farm prices seem to be picking up strength. In fact, I am sure Pete, as a Missourian, I expect that you too, are pleased with the recent increases in the price of soybeans, for example. I do not know exactly who to thank for that, but let me say on behalf of soybean producers in Missouri that they and we are appreciative.

We note also that the livestock sector seems to be experiencing some favorable market activity. It is always a pleasure to see hog prices in the mid-$50 range and to see feeder steers over $70.

Two other programs also seem to be in full speed at this point, the Dairy Termination Program, the full-herd buy out, and the Conservation Reserve Program seem to be underway. There has been a lot of discussion about those programs and I would particularly welcome any comments you may have on those two. I think you know the concerns that we have expressed specifically with regard to the CRP and the set-asides.

Another topic about which I am concerned, and I know the Department is as well, the proposed budget cuts that agriculture may be required to take in 1988. I understand the figure is about $1.2 billion and it is of grave concern to me that any cuts in the agriculture budget not come directly out of farmers' pockets. Our programs and policies seem to be moving in the right direction and I do not want to see harmful cuts made at this time.

If we must accept the cuts, I hope that such cuts will be fully analyzed before being implemented and make sure that this subcommittee has an opportunity to hear a full explanation of your proposals on where to make those cuts. I certainly do not claim to have the answers, whether to freeze the loan rate, increasing acreage reduction programs, or decreasing target prices, but I hope, Peter, you are able to give us some guidance and insight on that.

Again, it is a pleasure to be with you and I look forward to hearing your thoughts on the status of American agriculture.

Thank you.

Senator **Melcher**. Thank you, Senator. I think you touched on exactly what the American agricultural producers must have, and that is price improvement. The luxury we have of looking at improving cattle prices this spring and early this summer is indeed a very encouraging note, but it is also very discouraging to look at the numbers that are on feed and will be coming to slaughter this fall and then looking at those future prices dropping.

Nevertheless, our job here in this subcommittee is to attempt to improve prices for agricultural producers and particularly those prices in the marketplace. We have got a long way to go. I think we have got a long way to go on this hearing also, Peter. There is another vote and maybe we ought to just vote right now.

Senator **Bond**. He said he was going to make a short statement, maybe we could—can you do it in——

Mr. **Myers**. It will take me 7 or 8 minutes, so you may want to go vote.

Senator **Melcher**. We would like to ponder on your remarks of 7 to 8 minutes. We probably will have some follow-up questions. The subcommittee will stand in recess for 15 minutes.

[Short recess.]

Senator **Melcher**. The subcommittee will come to order.

We will include in the record a prepared statement by Senator Helms.

[The prepared statement of Senator Helms follows:]

PREPARED STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

Mr. Chairman, thank you for this opportunity to hear from the United States Department of Agriculture and to discuss the current state of domestic farm programs.

We all remember the many months of deliberations that took place with the 1985 farm bill. Because I did not believe the bill reported by my committee was sound farm policy, I was obliged to become the first chairman of the Senate Agriculture Committee to vote against a farm bill. I believed then, and still believe today, that the most immediate problem facing the Nation's farm sector is the budget deficit. It is obvious to me that the 1985 farm bill was totally unsatisfactory to anyone believing, as I do, that Congress has a duty to restore fiscal sanity to the cost of operating the Federal Government.

Spending for commodity price support programs is projected to exceed $21 billion in fiscal year 1988. This is down from the record level of $26 billion which was spent last year, and the near-record level which is predicted for this year. I voted against the costly 1985 farm bill which had a projected cost of a high $50 billion over 3 years. How many Senators would have joined me if they could have realized that it is now estimated to cost about $72 billion?

Correcting the costly flaws in current farm policy can be achieved without great difficulty. But there has to be a more sensible relationship between the market and our farm programs.

We still hear the voices for increasing loan rates, increasing target prices, creating mandatory controls, on and on. All these changes would completely destroy what few good changes were made in the 1985 farm bill. Though costly as it is, we have begun the slow transition to market-oriented farm policy. We have created a new era of hope for the American farmer. To listen to these voices and make the changes they advocate will only return us to the failures of past farm policies.

I will continue to support the administration's efforts to make the needed changes to bring these farm programs into fiscal responsibility. I will support efforts to reduce target prices and eliminate requirements that encourage planting surplus crops in order to receive deficiency payments. Changes such as these will cause immediate budgetary savings, but more importantly, will reduce surplus and open markets for our farmers.

Mr. Chairman, the bottom line is that American agriculture must face reality. We must compete in the world market and regain our status at the cutting edge of efficiency. We cannot lose sight and make the changes that will steer us away from market forces. We must improve on the 1985 farm bill and return American agriculture back to world prominence.

Senator **Melcher**. We are joined now by Senator Conrad and he prefers that we go right into the testimony of our witness.

Peter, we would be glad to hear from you now. Please proceed.

STATEMENT OF PETER C. MYERS, DEPUTY SECRETARY OF AGRICULTURE, U.S. DEPARTMENT OF AGRICULTURE

Mr. **Myers**. Thank you, Senator.

Mr. Chairman and Senator Conrad and Senator Bond, it is a pleasure for us to be here to address the issues on the current status of the farm programs.

I do have a prepared statement that I would submit for the record, Senator, and I will highlight it for you.

Senator **Melcher**. The entire statement will be made part of the record.

Mr. **Myers**. Thank you.

Under the farm programs now in place, the outlook, as you mentioned, is cautious optimism in U.S. agriculture. We are improving. At the end of my prepared statement, you will find a series of tables which illustrate this point. A major goal of the Food Security Act of 1985 was to make American agriculture once again competitive in world markets. This was accomplished by reducing price support levels and by increasing export assistance.

The overall volume of U.S. agricultural exports is likely to rise in fiscal 1987 for the first time in 7 years. Expanded use is expected to continue for the 1987 crops, resulting in reduced stocks for all major crops at the end of the 1987–88 marketing years.

Heavy participation in farm programs also will help reduce crop surpluses. A record 84 percent of the total base acreage of program crops is enrolled in the 1987 programs.

Producer income has and will benefit from reduced production expenses and increased direct Government payments. Net cash farm income for 1987 is forecast to be between $48 and $52 billion—the sixth consecutive record. Also, as farm debt continues to drop and farmland values start to bottom out, farm equity is expected to increase after 6 straight years of decline.

The Food Security Act of 1985, sustained growth and low inflation in the U.S. economy, and positive developments overseas have set the stage for steady, long-term improvement in U.S. agriculture. In short, Mr. Chairman, we believe that current farm program policies are moving generally in the direction that is best for the United States and world agriculture.

Although the implementation of the 1985 act has improved market prospects, farm program spending remains at near-record levels. The President's fiscal 1988 budget recommended several proposals to reduce farm program spending in order to lower the Federal deficit. Upon adoption of a budget resolution by Congress, the authorizing committees will be directed to come up with the requisite savings. Savings on the order of $1 billion or more for fiscal 1988, and about $5 billion for fiscal 1988 through 1990 will probably be sought. Mr. Chairman, we believe that the path chosen to achieve the spending reductions is critically important to the future of U.S. agriculture.

Congress must face some very clear choices. The required budget savings can be real, involving meaningful program revisions. Or the savings can be illusory, such as short-lived savings from shifting outlays.

Unfortunately, a number of budget proposals now surfacing may offer some short-term savings, but clearly would be detrimental to agriculture in the longer term. We want to express our concern over several proposals that we believe are very shortsighted.

Some have proposed freezing loan rates or even raising them to limit deficiency payment exposure. We cannot overemphasize the role lower loan rates have played in restoring our competitiveness in world markets and in increasing overall demand. The 1985 act clearly recognized the need to set lower loan rates based on market prices, and the act provides for such a transition. Failure to continue toward market-based loan rates certainly would benefit our export competitors. In the longer term, freezing or raising loan rates would increase program costs because demand would be less and production greater; loan placements and forfeitures would increase.

Larger acreage reduction programs have also been proposed as a way to reduce outlays in the short run by reducing the acreage eligible for payments. From the farm income perspective, raising acreage reduction requirements is little different than reducing target prices.

As a way to reduce outlays, some have proposed limiting the total value of commodity certificates which are issued or setting a minimum price for exchanging certificates. Restricting the use of certificates would not result in real program savings. Our estimates of the cost of using certificates indicate that, under most conditions, the net cost of using certificates is likely to be small. Certificates enhance farm income, help relieve tight storage conditions, and provide access to otherwise market-isolated stocks, thus contributing to improvement in demand in the long run.

In assessing these or any budget solution, the longrun implications should be carefully weighed.

Lowering target prices will reduce CCC outlays while addressing the core of our surplus problem by reducing the incentive to overproduce. Rather than engage in the now-popular sport of trying to find ways to lower direct payments without lowering target prices, we urge the Congress to simply lower target prices.

Further movement of loan rates toward 75 to 85 percent of the 5-year moving average of market prices will continue to expand the use of commodities. Current loan rates, especially for wheat, provide an incentive to overproduce domestically while providing a world price floor that also encourages foreign production and injures our competitive position.

Extension of the 50/92 provision to 0/92 would allow a producer to receive 92 percent of income support payments without requiring the producer to plant surplus program crops. Program outlays would be lower under this provision, provided it is announced in time to allow producers to adjust planting decisions. Fears of massive acreage reductions are unfounded. We currently estimate that during sign-up, producers indicated plans to idle 5 to 6 million acres under the 50/92 provisions for 1987.

Finally, to reduce program payment abuses, we encourage tighter payment limitation provisions to determine the number of persons eligible to receive program benefits. Tighter provisions will lower outlays and help to ensure that program payments truly go to those engaged in farming, the producers, and the landowners in agriculture.

In summary, our agricultural policies are focused in the right direction. Nevertheless, as you mentioned earlier, some revisions are necessary to enhance the adjustment toward market orientation.

I would mention one more point, Mr. Chairman, which is not in my prepared statement. We have another program that concerns us regarding domestic policy, as well as an issue which should be addressed as we pursue freer trade markets, and this is the sugar program.

The current program forces us to reduce the greatly needed quotas of countries of a strategic national concern to the United States, and those quotas will, before long, be at zero. The program then will fall under its own weight. We should address the sugar program problem before it reaches that point.

Mr. Chairman, that concludes my remarks and I would be happy to respond to questions from you or members of the subcommittee.

Thank you.

[The prepared statement of Mr. Myers follows and attached questions submitted by Senator Thad Cochran and the responses thereto by Mr. Myers:]

Testimony of Peter C. Myers
Deputy Secretary of Agriculture
before the
Subcommittee on Agricultural Production
and Stabilization of Prices
Senate Committee on Agriculture, Nutrition, and Forestry
May 21, 1987

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the current status of farm programs.

Under the programs now in place, the outlook for U.S. agriculture is improving. At the end of my prepared statement, you will find a series of tables which illustrate this point. A major goal of the Food Security Act of 1985 was to make American agriculture once again competitive in world markets. This was accomplished by reducing price support levels and by increasing export assistance, primarily through the Export Enhancement Program and the Targeted Export Assistance program.

Due largely to the 1985 legislation, demand for all major crops is expected to be up for the 1986/87 marketing year. The overall volume of U.S. agricultural exports is likely to rise in fiscal 1987 for the first time in 7 years. Expanded use is expected to continue for the 1987 crops, resulting in reduced stocks for all major crops at the end of the 1987/88 marketing years.

Heavy participation in farm programs also will help reduce crop surpluses. A record 84 percent of the total base acreage of program crops is enrolled in the 1987 programs. Acreage required to be idled under the annual programs totals over 54 million acres; another 17 million acres of highly erodible land will be placed in the Conservation Reserve Program in 1987.

Producer income will benefit from reduced production expenses and increased direct government payments. Net cash farm income for 1987 is forecast to be between $48 and $52 billion--the sixth consecutive record. Also, as farm debt continues to drop and farmland values start to bottom out, farm equity is expected to increase after 6 straight years of decline.

The 1985 Food Security Act, sustained growth and low inflation in the U.S. economy, and positive developments overseas have set the stage for steady, long-term improvement in U.S. agriculture. Current farm programs will permit expanded use while simultaneously curbing excessive production. Fiscal and monetary policies are working to control inflation, which has fostered lower interest and exchange rates. Generally, major trading nations have agreed to refrain from actions that would worsen the negotiating climate, and to pursue reform of policies that have contributed to current global surpluses. In short, Mr. Chairman, we believe that current farm policies are moving generally in the direction that is best for U.S. and world agriculture.

Although the implementation of the 1985 Act has improved market prospects, farm program spending remains at near-record levels. The President's fiscal 1988 budget recommended several proposals to reduce farm program spending in order to lower the Federal deficit. Congress now is in the process of considering how much these programs should be reduced for purposes of developing the fiscal 1988 Budget Resolution. Upon adoption of a Budget Resolution by Congress, the authorizing committees will be directed to come up with the requisite savings. Savings on the order of $1.0 billion or more for fiscal 1988 and about $5.0 billion for fiscal 1988-1990 will probably be sought. Over the same period, the President's budget achieved savings of over $10 billion. Mr. Chairman, we believe that the path chosen to achieve the spending reductions is critically important to the future of U.S. agriculture.

Congress must face some very clear choices. The required budget savings can be real, involving meaningful program revisions. Or the savings can be illusory, such as short-lived savings from shifting outlays. We believe that Congress must pursue program revisions that result in real, sustained outlay reductions. But, that is not the only choice that must be made. Program revisions can be selected which reinforce our current programs--they can be changes which support the positive developments now taking place in agriculture. Or the program changes can be counterproductive and threaten the progress now being made.

Unfortunately, a number of budget proposals now surfacing may offer some short-term savings but clearly would be detrimental to agriculture in the longer term. With the 1987 program contracts signed and crops rapidly being planted, options to achieve fiscal 1988 savings are limited. It is important not to let this constraint dictate policy choices that are alluring for fiscal 1988 only. In this regard, we want to express our concern over several proposals that we believe are very short-sighted.

Some have proposed freezing loan rates or even raising them to limit deficiency payment exposure. We cannot overemphasize the role lower loan rates have played in restoring our competitiveness in world markets and in increasing overall demand. The 1985 Act clearly recognized the need to set loan rates based on market prices, and the Act provides for such a transition. If we reverse the direction of the 1985 Farm Bill, we risk aborting our current growth in demand. Failure to continue toward market-based loan rates certainly would benefit our export competitors, resulting in lower foreign subsidy costs and higher foreign production. In the longer term, freezing or raising loan rates would increase program costs because demand would be less and production greater; loan placements and forfeitures would increase; the 50/92 program would be less effective; export bonuses would rise; and a greater portion of outlays would be exempt from payment limits.

Larger acreage reduction programs have also been proposed as a way to reduce outlays in the short run by reducing the acreage eligible for payments. At the very time our subsidizing competitors are acknowledging their responsibility in resolving the global surplus problem, the United States would again be acting unilaterally to cut global supplies. From the farm income perspective, raising acreage reduction requirements is little different than reducing target prices. Raising acreage reduction requirements to offset the outlay effects and production incentives of high target prices is treating a symptom. It may work for one year, as in 1983, but unless the underlying problem is addressed, relief from surpluses and large program costs will be short lived, as proven by our experience after 1983.

As ways to reduce outlays, some have proposed limiting the total value of commodity certificates which are issued or setting a minimum price for exchanging certificates Restricting the use of certificates would not result in real program savings. Our estimates of the cost of using certificates indicate that, under most conditions, the net cost of using certificates is likely to be small. Restricting the use of certificates in the name of budget savings would negate the many benefits derived from using certificates. Certificates enhance farm income, help relieve tight storage conditions, and provide access to otherwise market-isolated stocks, thus contributing to improvement in demand.

In assessing these or any budget solution, the long-run implications should be carefully weighed. We believe that the earlier budget proposals by the administration are in the best long-term interest of agriculture.

Lowering target prices will reduce CCC outlays while addressing the core of our surplus problem by reducing the incentive to overproduce. Target prices will gradually have to be reduced toward market price levels if acreage reduction programs--and their associated production inefficiencies--are ever to be eliminated. For the 1986 crops, the Gramm-Rudman-Hollings sequester of 4.3 percent reduced deficiency payments, which had the same effect as a slight reduction in target prices. With no sequester this year, target prices are effectively increasing. Rather than engage in the now-popular sport of trying to find ways to lower direct payments without lowering target prices, we urge the Congress to simply lower target prices. Lower target prices will work to reduce the incentive to overproduce, increase production efficiency, and signal our competitors that the United States intends to be a market-oriented, low-cost, high-volume competitor in the world market.

Further movement of loan rates towards 75 to 85 percent of the 5-year moving average of market prices will continue to expand use, which will help to reduce surpluses and decrease program outlays in the longer term. Our proposals to increase the Secretary's authority to adjust formula loan rates by up to 10 percent a year for program crops will help accomplish these goals. Current loan rates, especially for wheat, provide an incentive to overproduce domestically while providing a world price floor that also encourages foreign production and injures our competitive position.

Extension of the 50/92 provision to 0/92 would allow a producer to receive 92 percent of income support payments without requiring the producer to plant surplus program crops. Severing the link between income support payments and planted acreage decisions also is being pursued in multilateral trade negotiations as a way to increase market orientation. Program outlays would be lower under this provision, provided it is announced in time to allow producers to adjust planting decisions. Fears of massive acreage reductions are unfounded. We currently estimate that during signup, producers indicated plans to idle 5-6 million acres under the 50/92 provisions for 1987.

Finally, to reduce program payment abuses, we encourage tighter payment limitation provisions to determine the number of persons eligible to receive program benefits. That is, we believe program payment recipients should be actively engaged in farming and have some dependency upon farming for their livelihood. Tighter provisions will lower outlays and help to ensure that program payments truly go to producers.

These proposals are not new to the Members of this Subcommittee. We have reconsidered them many times since first proposed and we continue to believe they represent the best way to achieve meaningful budget savings while enhancing the turnaround now underway.

In summary, our agricultural policies are focussed in the right direction. Nevertheless, some revisions are necessary to enhance the adjustment towards market orientation and to reduce farm program outlays which contribute to the U.S. budget deficit. Those of us concerned about agriculture and rural America must develop solutions that are in the best interest of producers, consumers, and taxpayers.

Mr. Chairman, that concludes my remarks. I will be glad to respond to any questions you or Members of the Subcommittee may have.

Table 1: Total Use

		Marketing Year	
	1985	1986 (est.)	1987 (forecast)
Feed grains (MMT)	206.4	222.2	228.7
Corn (mil. bu.)	6,496	7,180	7,450
Wheat (mil. bu.)	1,960	2,159	2,195
Rice (mil. cwt.)	124.5	151.3	153.0
Cotton (mil. bales)	8.4	14.0	13.0
Soybeans (mil. bu.)	1,879	1,948	1,900

Table 2: U.S. Agricultural Exports

		Marketing Year	
	1985	1986 (est.)	1987 (forecast)
Feed grains (MMT)	36.6	45.8	49.1
Corn (mil. bu.)	1,241	1,450	1,600
Wheat (mil. bu.)	915	1,025	1,225
Rice (mil. cwt.)	58.7	80.0	78.0
Cotton (mil. bales)	2.0	6.7	6.0
Soybeans (mil. bu.)	740	700	650
All ag. exports (fiscal years) (MMT)	126.0	109.6	114.0

Table 3: Ending Stocks

		Marketing Year	
	1985	1986 (est.)	1987 (forecast)
Feed grains (MMT)	126.3	157.2	148.1
Corn (mil. bu.)	4,040	5,115	4,870
Wheat (mil. bu.)	1,905	1,848	1,778
Rice (mil. cwt.)	77.3	62.6	46.8
Cotton (mil. bales)	9.4	5.2	4.3
Soybeans (mil. bu.)	536	595	520

Table 4: Participation, Percent of Base Acreage Enrolled

	1983	1984	1985	1986	1987 (Enrollment Report)
			(percent)		
Corn	71.4	54.7	70.8	83.1	87.8
Wheat	77.8	60.8	74.0	80.7	83.4
Cotton	93.8	71.5	72.0	87.7	89.1
Rice	97.7	87.5	91.8	91.2	93.4
TOTAL ALL CROPS	81.2	55.9	69.1	81.5	83.9

Table 5: Farm Income and Balance Sheet

	1980	1981	1982	1983	1984	1985	1986	1987F
				($ bil.)				
Gross cash income	143.3	146.0	150.6	150.2	154.9	156.2	151	146-148
Cash expenses	109.1	113.2	113.8	113.0	115.6	112.1	102	96- 98
Net cash income	34.2	32.8	36.8	37.1	39.3	44.0	49	48- 52
Total assets	1003.2	1005.2	977.8	956.5	856.1	771.4	711	711
Total debt	170.4	188.8	203.6	202.4	198.7	192.1	177	158
Equity	832.9	816.4	774.2	754.0	657.3	579.3	534	553

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United States Senate
COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, DC 20510-6000

June 12, 1987

The Honorable Peter C. Myers
Deputy Secretary
Department of Agriculture
Washington, D.C. 20520

Dear Mr. Myers:

Attached are questions submitted by Senator Thad Cochran after the May 21, 1987 hearing on the status of the farm program. I would appreciate your sending your answers for the record as soon as possible.

Thank you for your assistance.

Sincerely,

Patrick Leahy

PATRICK LEAHY
Chairman

PJL/bp

QUESTIONS SUBMITTED BY SENATOR THAD COCHRAN
TO
DEPUTY SECRETARY PETER C. MYERS
MAY 21, 1987

1. On page one, second paragraph of your testimony, why did you not include marketing loan in the list of provisions implemented to accomplish the competitiveness objective implicit in the Food Security Act of 1985?

2. With the increases in foreign and domestic sales of cotton, rice, and honey, why does the Department not give the marketing loan provision more credit or reconition, especially on occasions such as this testimony?

3. What is the Department's position on the effectiveness of the marketing loan provision in accomplishing the objective of price competitiveness for cotton, rice, and honey?

4. Give a comparative analysis of "marketing loan" and "generic certificates" in:

(a) effectiveness in establishing competitive prices for cotton, rice, soybeans, wheat, and feed grains in foreign and domestic markets;

(b) accurateness in determining associated cost and savings.

5. On page two of your testimony you indicate, "farmland values start [ing] to bottom out", and the May 15 Doane's Agriculture Report indicated land values have actually increased slightly in three states: 3 % in Michigan, 1.5 % in Illinois, and 0.5 % in Iowa. What information do you have on current and near-term trends in land values that supports these statements?

6. What are the consequencies of modifying the loan rate provisions in current law, especially if changes include raising loan rates? Has the Department analyzed the short and long term budget impact of such changes?

7. Under your proposal to extend the 50/92 provision to 0/92, can you assure tenants and share croppers their interest in crop bases will be protected? If yes, how? If no, why not, and what impact would this have on these farmers?

Questions Submitted By Senator Thad Cochran

1. QUESTION: On page one, second paragraph of your testimony, why did you not include marketing loan in the list of provisions implemented to accomplish the competitiveness objective implicit in the Food Security Act of 1985?

ANSWER: The testimony was written in general terms covering all the provisions of the Food Security Act of 1985 for making U.S. agricultural commodities more competitive in world markets. We did not intentionally leave out the marketing loan programs. They are included, by implication, since marketing loans are a function of reducing effective price support levels.

2. QUESTION: With the increases in foreign and domestic sales of cotton, rice and honey, why does the Department not give the marketing loan provision more credit or recognition, especially on occasions such as this testimony?

ANSWER: Again, this testimony was directed toward all commodities and the overall benefits of the 1985 Act rather than towards the benefits of specific commodity programs. The Department does recognize that the marketing loan programs for upland cotton, rice and honey have resulted in increased foreign and domestic sales of these commodities. Tables 1, 2 and 3 attached to the testimony showed total use, exports and ending stocks for 1985, 1986 (estimates) and 1987 (forecasts) for wheat, feed grains, cotton and rice. The answer to question 3 provides more details for cotton, rice and honey.

3. QUESTION: What is the Department's position on the effectiveness of the marketing loan provision in accomplishing the objective of price competitiveness for cotton, rice, and honey?

ANSWER: The marketing loan programs for upland cotton and rice and the lower loan repayment option for honey were designed and have been administered such that prices of these commodities are competitive in world markets. This competitiveness is evidenced by the increases in both exports and domestic use of these commodities.

Although changes of year to year export levels may be influenced by non-price variables, the export increases for upland cotton and rice can largely be attributed to the competitive prices afforded by the marketing loan programs.

The upland cotton marketing loan program became effective for the 1986 crop. Domestic mill use during the 1986/87 marketing year (MY) is estimated at 7.2 million bales--up 14 percent from mill use of 6.3 million in MY 1985/86. Exports for MY 1986/87 are estimated at 6.6 million bales.

This represents a seven percent increase over MY 1984/85 exports and more than a 250 percent jump over MY 1985/86 exports. Upland cotton imports, although traditionally low, show a decline from 33,000 bales in MY 1985/86 to 5,000 in MY 1986/87.

Unlike the programs for upland cotton and honey, the rice marketing loan began April 15, 1986, thus providing a reduced market price level for about 11 weeks of the 1985-crop marketing year. Rice exports for MY 1985/86 were 58.7 million hundredweight (cwt.). Even though this total reflected some marketing loan enhancement, the level was the lowest since MY 1975/76. Exports for MY 1986/87 are estimated at 80 million cwt., a 36 percent increase, and are forecast at 78.0 million for MY 1987/88. The level of U.S. rice imports has been unaffected by the marketing loan program. Rice imports are believed to be primarily of aromatic varieties which are sold through ethnic retail outlets. Imports of 2.3 million cwt. in MY 1986/87 represent less than 4 percent of U.S. domestic consumption.

The lower loan repayment option has also been successful in achieving a competitive price level for honey. The program has reduced honey imports, increased exports, and appears to be significantly reducing loan forfeitures. The reduced repayment option was intended primarily to make U.S. honey competitive for domestic use since the U.S. is a net importer of honey. The most direct evidence of this success is the decline of honey imports from 138.2 million pounds in calendar year CY 1985, to 119 million pounds in CY 1986. Imports for the first 4 months of CY 1987 were 18.2 million pounds, down from 56.6 million pounds for the first 4 months of CY 1986.

Because the United States is a net importer of honey, export growth was not a primary objective of the honey loan repayment option. However, the growth of honey exports also indicates that the U.S. price level is competitive. U.S. honey exports were 6.5 million pounds in CY 1985, 9.3 million pounds in CY 1986, and 5.6 million pounds for the first 4 months of CY 1987 (compared to 1.9 million for the first 4 months of CY 1986).

4. QUESTION: Give a comparative analysis of "marketing loan" and "generic certificates" in:

(a) effectiveness in establishing competitive prices for cotton, rice, soybeans, wheat, and feed grains in foreign and domestic markets;

(b) accurateness in determining associated cost and savings.

ANSWER: The Farm Disaster Assistance Act of 1987 (P.L. 100-45), recently signed into law, required a study comparing the effectiveness of marketing loans and the commodity certificate program. This detailed report will be submitted soon to the Senate Committee on Agriculture, Nutrition and Forestry and the House Committee on Agriculture. The following was excerpted from that report.

The effects of generic certificates on prices in comparison with the effects of marketing loans on prices varies by commodities. It is estimated that the generic certificate program reduced farm prices for corn in 1986/87 slightly more than a marketing loan would have. The certificate program also reduced wheat prices and it is estimated that a marketing loan would have had a similar effect. For the minor feed grains and soybeans, however, the generic certificate program had little effect on farm prices in 1986/87. Therefore, marketing loans would have had a greater impact, particularly for soybeans where loan stocks are large and the loan repayment rate would be the lower of the announced world price or the loan rate, with no statutory minimum.

Under a marketing loan, if world prices are below the loan rate, producers may repay their nonrecourse loans at a rate less than the loan rate. Loan repayment rates differ for each commodity, but in general, they are determined by the world price of the commodity or set at a minimum percentage of the basic loan rate, or set at the greater of the two. Since the loan rate no longer sets a commodity's lowest price, producers can sell commodities with no reduction in revenues at prices between the repayment rate and loan rate. This encourages producers to redeem their crops and market them at prices below loan rates rather than forfeit them to the Commodity Credit Corporation (CCC).

Unlike rice, wheat and feed grains, whose minimum loan repayment rates are determined as a percentage of their basic loan rates, soybean and upland cotton (under Plan B) loan repayment rates would not provide producers with a minimum price floor. The price floor is determined by perceived world supply and demand conditions.

Generic certificates provide access to commodities--wheat, rice, rye, corn, grain sorghum, barley, oats, soybeans, upland cotton, honey, and dairy products--either owned by CCC or under loan at prices below loan rates when prices are less then the loan rates. These stocks normally would be available to the market only when farm-level prices were substantially above support levels. They also increase marketing flexibility and enhance marketing opportunities and protect income for holders.

When farm prices are below loan rates, certificates effectively circumvent the barrier to marketing crops caused by the loan programs by allowing farmers to sell crops that otherwise would have remained under loan and eventually forfeited to CCC.

An overwhelming share of certificates has been exchanged for corn, causing the greatest price impact among commodities, because prices for corn in most locations have been below the loan rate throughout 1986/87 and because the storage cost saving for corn is greater than for most other program commodities.

During 1986/87, generic certificates are estimated to have had a slightly larger impact on corn prices than would have been achieved with a marketing loan. The generic certificate program is expected to lower corn prices in 1986/87 by 10 to 15 cents a bushel, whereas, a marketing loan program would likely have lowered the annual farm price by only 5 to 10 cents.

For wheat, the generic certificate program is estimated to have reduced the average farm price by about 2 to 8 cents a bushel in 1986/87. The average farm price for wheat during 1986/87 is currently projected to be about $2.40 a bushel. Had a marketing loan been implemented for wheat rather than the generic certificate program, the effect on the annual farm price for wheat would have been slightly less. Supply/demand conditions during 1986/87 were such that prices generally exceeded the loan rate, so the loan program did not create an effective barrier to marketing wheat.

Estimating the effects of generic certificate exchanges on the farm-level prices for program commodities besides corn and wheat is difficult. For rice, the marketing loan implemented in 1986/87 sharply reduced domestic market prices from levels in the previous year. Virtually all rice exchanged with certificates has come from CCC inventories.

National average farm prices for barley, as for wheat, have been above the support level ($1.49 a bushel) during nearly all of 1986/87. Farm prices for grain sorghum, however, have been below its $1.75 a bushel effective loan rate throughout 1986/87. But, separating the impacts of certificate exchanges and low corn prices on sorghum prices is difficult. The very small level of exchanges for soybeans and oats suggest that the certificate program has had little or no effect on prices for these commodities. But, certificate-reduced corn prices indirectly affect soybean prices. Lower corn prices encourage increased feed use, which in the long run leads to expansion in the livestock sector, which further increases feeding of feed grains and soymeal.

Implementation of marketing loans for rice and upland cotton has allowed the United States to regain the share of world trade for these commodities in 1986/87 that it enjoyed in the early 1980's. But, CCC outlays for rice and upland cotton associated with the marketing loan are estimated to range between $635-$830 million.

Marketing loans for wheat, feed grains, and soybeans have not been implemented thus far for several reasons. Given market conditions, marketing loans for these commodities would have potentially been very costly and it is unlikely that implementing them would have enhanced competitiveness more than other programs did. If marketing loans were implemented for wheat and feed grains in 1987/88, exports and domestic use would only rise modestly, and costs would total an additional $922 million to $1.6 billion above current expected outlays in absence of marketing loans.

Cost estimates for a marketing loan for soybeans depend on the world price for soybeans. For a world price for soybeans of $4.75 a bushel, costs for 1987/88 would only range from $13 to $25 million. But, the export and domestic crush response would be insignificant. However, if prices were to fall to $4.25 a bushel, costs could potentially rise to between $340 million and $644 million. The marketing loan cost per-additional-bushel of demand would range from $2.85 with a high demand response to $10.82 with a low response, depending upon the world price. If world soybean prices fell to $4.25 per bushel, potential forfeitures of 1986 crop soybeans under CCFC loan could boost costs an additional $250-$350 million.

Besides substantial costs, marketing loans have not been implemented for wheat, feed grains, and soybeans for several other reasons. The 1985 Act and the so-called Findley amendment gives the Secretary a greater degree of flexibility in lowering support levels for wheat and feed grains than for other program commodities. Also, the generic certificate program and various export enhancement authorities such as the EEP have given the Secretary added ability to attain more competitive prices for wheat and feed grains.

In effect, implementation of marketing loans for wheat and feed grains would be analogous to further modest reductions in support levels, whereas, for rice and upland cotton, as well as soybeans (if implemented), marketing loans can significantly enhance price competitiveness. The modest potential price reductions offered by grain marketing loans would add little to the price risk borne by foreign competitors, and would only have a modest effect on domestic use and exports.

5. QUESTION: On page two of your testimony you indicate, "farmland values start [ing] to bottom out", and the May 15 Doane's Agriculture Report indicated land values have actually increased slightly in three states: 3% in Michigan, 1.5% in Illinois, and 0.5% in Iowa. What information do you have on current and near-term trends in land values that supports these statements?

ANSWER: A May 1 Economic Research Service (ERS) survey of rural appraisers and several surveys by Federal Reserve Banks (as referenced in the Doane's Agriculture report) in April noted a leveling in values in areas where values were still falling late last year. The May 1 ERS survey of rural appraisers indicates that 57 percent believed that land values did not change from February through April 30, while 33 percent said values had continued to decline and 10 percent believed that values increased.

Appraisers also expected the trend toward stabilization would continue in the next quarter, as 64 percent believed that values would not change between May 1 and July 31, 26 percent expected a decrease, and 10 percent expected an increase. A more detailed report is scheduled to be published in July. Table I summarizes the results of the survey.

Table 1: Rural Appraisers Survey, May 1, 1987

	Census	Percent of respondents reporting values have:		
Time Period	Region	Increased	Not Changed	Decreased
Feb. 1- April 30, 1987	Northeast	1/	1/	1/
	North Central	16	69	15
	South	2	54	44
	West	7	46	47
	All Regions	10	57	33
		Percent of respondents expecting values to:		
		Increase	Remain the Same	Decrease
May 1- July 30, 1987	Northeast	1/	1/	1/
	North Central	14	74	12
	South	12	54	37
	West	6	59	35
	All Regions	10	64	26
May 1, 1987- May 1, 1988	Northeast	1/	1/	1/
	North Central	28	42	30
	South	20	48	32
	West	22	40	38
	All Regions	25	42	32

1/ Not reported because of small number of responses.

In addition, net cash income has been rising each year since 1981, and a further increase is expected in 1987. This year's anticipated increase is the result of high Government payments, farm debt reduction, improving crop and livestock prices, and gradually declining expenses. Total receipts for crops and live-stock will decline, but Government payments will offset the decrease. Total expenses decreased about 9 percent from 1985 to 1986 and are expected to fall another 3 percent in 1987 because of reduced costs associated with lower crop acreage and production and lower feed costs. Off-farm income, which almost equaled net cash farm income in 1986, is expected to increase again in 1987. Off-farm income can help ease farmer's cash flow problems and contribute to savings for purchase of farmland. Thus, from an income standpoint, there is substantial support for stabilization or modest increases in farmland values.

6. QUESTION: What are the consequences of modifying the loan rate provisions in current law, especially if changes include raising loan rates? Has the Department analyzed the short and long term budget impact of such changes?

ANSWER: The consequences and budget impacts of modifying loan rates were addressed with regard to H.R. 2610 (Glickman). The H.R. 2610 bill calls for maintaining the 1987-crop corn loan rate at the 1986 level, and maintaining the 1988-crop wheat loan rate at the 1987 level. In effect, H.R. 2610 would delay by one year the gradual reduction of wheat and feed grains loan rates provided for under the Food Security Act of 1985. It was found that maintaining higher loan rates will increase total program costs in the long-term and hinder the progress achieved in restoring U.S. agricultural competitiveness.

Higher loan rates will reduce domestic and export use resulting in more loan placements and forfeitures relative to current program provisions. A short-term budget savings from reduced deficiency payments will be more than offset by increased expenditures in other program areas in the long-term. It is estimated that implementation of H.R. 2610 would increase outlays for the wheat and feed grains programs by about $400 million over the fiscal years 1987-1992.

Other program areas adversely affected include the 0/92, 50/92, payment limitation, and export bonus provisions. Higher loan rates will discourage participation in the 0/92 and 50/92 programs, thereby reducing their effectiveness. The portion of payments subject to the $50,000 payment limitation will also decline with higher loan rates. Export bonus programs will be less effective in that a smaller quantity of more expensive exports could be moved with the same amount of dollars, or conversely, a larger amount of dollars would be required to move the same level of exports.

Higher loan rates would send the wrong signal to both domestic and foreign producers to increase acreage and production. Average variable production costs are below current loan rate levels for about 80 to 90 percent of U.S. wheat and feed grains producers. Therefore, higher loan rates would increase the incentive to produce for program benefits. High loan rates also provide a price umbrella for foreign producers to expand production, leaving the U.S. in a less competitive position.

From a farm and trade policy standpoint, higher loan rates may bring into question the sincerity of the United States regarding its position to reduce subsidies and curb excess production. Higher loan rates, when viewed as a move away from greater market orientation, undermine our position on agricultural policy taken at the Venice economic summit and may hinder our position in GATT negotiations.

7. QUESTION: Under your proposal to extend the 50/92 provision to 0/92, can you assure tenants and sharecroppers their interest in crop bases will be protected? If yes, how? If no, why not, and what impact would this have on these farmers?

ANSWER: As for assuring tenants and sharecroppers their interest in crop bases will be protected, crop bases are allocated to a farm, not an individual. Protection of crop bases depends on what happens on the entire farm. Farms participating in the 0/92, 50/92, or regular acreage reduction programs are given planted and considered planted credit to the extent the crop is planted, conserving use acreage for payment is allocated to the crop, and for the smaller of the required or designated acreage conservation reserve acreage. Thus, bases are protected on farms fully complying with these provisions.

The Agricultural Act of 1949, as amended by the Food Security Act of 1985, requires the Secretary of Agriculture to provide adequate safeguards to protect the interest of tenants and sharecroppers. In fact, regulations for this protection have been in effect since the mid-1960's. County Agricultural Stabilization and Conservation (ASK) committees are given the authority and responsibility for administering this requirement. Contracts to participate in the acreage reduction programs are not to be approved if the ASC committee determines the farm owner or operator has:

1. Not given tenants and sharecroppers on the farm an opportunity to participate in the program.
2. Reduced the number of tenants and sharecroppers on the farm below the number on the farm in the previous year in anticipation of or because of participating in the program.
3. Required any tenant or sharecropper to enter into any lease contract, agreement or understanding unfairly exacted.
4. Adopted any other scheme or device for the purpose of depriving any tenant or sharecropper of the payments to which such person would otherwise be entitled under the program.

Senator MELCHER. We are going to stay bipartisan here. We have Senator Boschwitz, two Republicans and two Democrats.

Senator BOSCHWITZ. I see that.

Senator MELCHER. Peter, you are talking about farm income being up for another year. Would you say this would be the third year in a row that farm income is up?

Mr. MYERS. I believe that is right. I know it is the second year, and I think it is the sixth year in a row I believe is what we are saying, net cash income. Now, that——

Senator MELCHER. That includes payments?

Mr. MYERS. That includes Government payments. Total all income, subtract all expenses and what is left is net cash income.

Senator MELCHER. If you are in the wheat program, or if you are in the corn program, you are getting your income out of the Treasury?

Mr. MYERS. True, a big part of it comes from the Treasury.

Senator MELCHER. Now, what about cattle prices, where are you going to put them? Where does the Department feel they are going to be, say, in October? Do you have anything?

Mr. MYERS. I will ask my expert, because if I knew—well, I cannot play the board anyhow and I do not.

Senator MELCHER. Who are these experts?

Mr. MYERS. Keith, what is our projection? I am personally very optimistic about the cattle market.

Senator MELCHER. I want to feel more optimistic.

Mr. MYERS. I know.

Senator MELCHER. I am afraid of anything after September. I want to hear the projection of the Department figures.

Mr. MYERS. They are still projecting $64 to $65 for choice steers.

Senator MELCHER. That is not as good as $70.

Mr. MYERS. No, but you can make money at that with cheap corn and cheap milo.

Senator MELCHER. What about into next year? Have you got any projection into the first quarter of next year?

Mr. MYERS. No, sir, we do not, but we can get that for you.

Senator MELCHER. Do you have any later projection than that?

Mr. MYERS. Through 1987, but we can get you——

Senator MELCHER. $64 to $65 into December?

Mr. MYERS. $63 in December.

Senator MELCHER. Well, how about hogs?

Mr. MYERS. Hogs, we are projecting $48 in the third quarter and then $43 in the fourth quarter. I think that is expansion showing up.

Senator MELCHER. And I think that is where you start losing money.

Mr. MYERS. Well, I think we can make it with $43 hogs and $2 corn.

Senator MELCHER. I do not know. How about chickens?

Mr. MYERS. Broilers are pretty flat, going up a little in the middle of the year, 52 cents and then dropping back to 50 cents is what they are projecting. That is a 12-city estimate.

Senator MELCHER. Twelve city, and that is through the end of the year?

Mr. MYERS. Yes, through the end of the year. 50 cents is projected for the last quarter.

Senator MELCHER. Now, on the other side of this, you are saying that exports are going to pick up. Tell me why.

Mr. MYERS. They are picking up, because U.S. exports are competitive and because of Export Enhancement and Targeted Export Assistance.

Senator MELCHER. Now, that Targeted Enhancement, you are limited on that, are you not?

Mr. MYERS. Well, the Export Enhancement, we are limited——

Senator MELCHER. Targeted.

Mr. MYERS [continuing]. Targeted Export Assistance Program?

Senator MELCHER. Yes.

Mr. MYERS. Well, not to my knowledge.

Senator MELCHER. Is there a cap there?

Mr. MYERS. Yes, limited in dollars, yes, sir.

Senator MELCHER. Do you need more?

Mr. MYERS. I would never say we need more.

Senator MELCHER. The testimony is that the cap does not——

Mr. MYERS. We had adequate money.

Senator MELCHER. And on Export Enhancement, do you have a cap on it?

Mr. MYERS. Yes, sir, we do have a cap and we feel like we have adequate money to operate that.

Senator MELCHER. How much is going to be used up with the Russian sales?

Mr. MYERS. That is a good question. We will provide that for the record, because we really do not know the basis that we are going to have to use on all of this because we have not culminated the sales.

Senator MELCHER. Wait a minute. You offered 4 million tons. You know what the offer was. What have you told the grain companies?

Mr. MYERS. Well, we make the difference up.

Senator MELCHER. What is that, do you know?

Senator BOSCHWITZ. The subsidy is $44.14, as I recall, per ton.

Senator MELCHER. $44?

Senator BOSCHWITZ. Yes, per ton.

Mr. MYERS. Per ton.

Senator BOSCHWITZ. $176 million?

Mr. MYERS. They estimate $160 million worth of commodities for the total sale.

Senator MELCHER. $44 a ton?

Mr. MYERS. Yes, sir.

Senator MELCHER. What is that going to cost the Soviets? Is the $44 correct?

Mr. MYERS. It is going to cost the Soviets about $80 per ton.

Senator MELCHER. Your experts are shaking their heads back there, Peter.

Mr. MYERS. The first sales have been $44, the last few have been at $40 a ton.

Senator MELCHER. What does that cost the Soviets per ton?

Mr. MYERS. $80-some-odd a ton, about $80.

Senator MELCHER. $80?

Mr. **Myers**. Right, and that is the world market price.

Senator **Melcher**. Who had the authority to do that?

Mr. **Myers**. The Secretary did.

Senator **Melcher**. Is the Secretary offering that to other countries?

Mr. **Myers**. We offered on a negotiated basis to several other countries and we continue to make sales under the Targeted Export Assistance Program.

Senator **Melcher**. Have you offered it to the Philippines?

Mr. **Myers**. Not to my knowledge.

Senator **Melcher**. Why not?

Mr. **Myers**. Well, in talking to the Philippine Minister of Agriculture recently, Senator, they do not want too much more of our wheat because they claim that it would cause problems with their domestic rice production.

Senator **Melcher**. That does not answer the question. First of all, they buy it through the millers, right?

Mr. **Myers**. Yes, sir.

Senator **Melcher**. It is free enterprise.

Mr. **Myers**. Yes, sir.

Senator **Melcher**. What are the millers saying?

Mr. **Myers**. That I cannot tell you personally.

Senator **Melcher**. Well, they are the ones that buy it. I don't understand this, Peter. You know, we are going to increase exports and we finally got a sale to Russia, although I guess we have got to sell it for $88, is that right? Is that a fair statement, $88 a ton?

Mr. **Myers**. About $80.

Senator **Melcher**. $80?

Mr. **Myers**. Right.

Senator **Melcher**. That is metric tons, that is a little less than 2 cents a pound, is that right?

Senator **Boschwitz**. About 4 cents a pound, Mr. Chairman.

Senator **Melcher**. A little less than 4 cents a pound.

Senator **Boschwitz**. A little less than 4, a little over $2 a bushel, 36.7 bushels per ton.

Senator **Melcher**. Now, you are telling me that the Secretary has the authority to make this deal. Are you telling me the Secretary does not have the authority to make a deal with the Philippines?

Mr. **Myers**. The Secretary has the authority under the program to make it with anybody, but the object is to try and be competitive with other subsidized producers in the world. That is the basis that we really work this program.

Senator **Melcher**. Well, the Philippines have been buying from Canada. Going back a little farther than that, they have been buying, I think, from England, Britain——

Mr. **Myers**. Who would be a subsidized producer, but Canada would be——

Senator **Melcher** [continuing]. And they bought from Germany.

Mr. **Myers**. But we would consider the more recent sales probably. Here again, our FAS people know the markets, know the major competitors in the world and whether they are subsidized or not. We would sell head to head against the European Community.

Senator **Melcher**. Have you made such an offer to Indonesia or——

Mr. **Myers**. I am not aware of it.

Senator **Melcher** [continuing]. Mexico?

Mr. **Myers**. Oh, I am sure we have made sales to Mexico.

Senator **Melcher**. Have you made an offer to sell $80 wheat to Mexico?

Mr. **Myers**. I do not know.

Senator **Melcher**. I do not know how you know whether the exports are going to pick up.

Mr. **Myers**. Well, we see the figures, Senator, that is how we know and we see projections.

Senator **Melcher**. All right, what is your projection on wheat?

Mr. Myers? We are estimating that we are going to be a little over 1 billion in this year, and the forecast is to be 1,225,000,000 for the marketing year beginning June 1.

Senator **Melcher**. Bushels?

Mr. **Myers**. Bushels, yes.

Senator **Melcher**. And that is during what period of time?

Mr. **Myers**. That is during the 1987 marketing year for wheat.

Senator **Melcher**. Starting June 1?

Mr. **Myers**. Yes, sir.

Senator **Melcher**. And what improvement is that going to be over last year?

Mr. **Myers**. That is going to be 200 million bushels improvement over last year, and it is going to be 300 million-some over 1985, so it is a definite pattern.

Senator **Melcher**. In how many instances have you used Targeted Export Enhancement?

Mr. **Myers**. Sixty-seven.

Senator **Melcher**. Am I confusing terms here, is that the total of Export Enhancements?

Mr. **Myers**. That is EEP, as we call it.

Senator **Melcher**. All right. And the other 67 is the Export Enhancement?

Mr. **Myers**. That is right.

Senator **Melcher**. Then the other program, which is targeted.

Mr. **Myers**. The TEA Program?

Senator **Melcher**. Yes, how many times have you used it?

USDA **Staff Responds**. Targeted Export Assistance?

Senator **Melcher**. Yes.

USDA **Staff Responds**. The total amount for both fiscal years it has been in operation is——

Mr. **Myers**. How many times?

Senator **Melcher**. Well, you are up to the cap then in this fiscal year?

Mr. **Myers**. Yes.

Senator **Melcher**. But you do not want any more authority?

Mr. **Myers**. No, sir.

Senator **Melcher**. All right. So what you are telling me is you would rather use the Export Enhancement Program?

Mr. **Myers**. We seem to be more effective with that and it is moving a lot of volume.

Senator MELCHER. On the other side of this, section 416 and Public Law 480, do you have any recommendations?

Mr. MYERS. No, we think it is a good program and it should be used to the limit that we are using it.

Senator MELCHER. Well, using wheat as an example, you show an increase in production this year with 2.2 billion bushels production. What is going to be the carryover? What do you project the carryover a year from this June 1?

Mr. MYERS. On wheat?

Senator MELCHER. On wheat.

Mr. MYERS. We predict wheat to be about 1,700,000,000 bushels at the end of 1987.

Senator MELCHER. All right, 1,700,000,000 carryover?

Mr. MYERS. Right.

Senator MELCHER. Are you going to say that is a reduction?

Mr. MYERS. That is a reduction from 1986, which is 1,850,000,000.

Senator MELCHER. So, the 200 million increase in exports that you project in the 1987 crop-year is going to leave you with 1,700,000,000 carryover——

Mr. MYERS. That is right.

Senator MELCHER [continuing]. Which means a continuation of very drastically depressed prices in the marketplace. What I am going to suggest to you, Peter, is that you use all of the export programs that we included in the 1985 farm bill. What programs have you not used?

Mr. MYERS. I think we have used them all. We have used all the programs, Senator.

Senator MELCHER. Have you used the program that allows a cooperative to monetize the donated commodity and use those funds for purposes within the country?

Mr. MYERS. Yes, we have.

Senator MELCHER. I am referring to section 108. Where have you used that?

Mr. MYERS. I am looking here at section 416 in title II.

Senator MELCHER. It would be good news to me if you have actually used it. I do not think you have used it.

Mr. MYERS. We have announced two programs in two countries under 108 and we are negotiating——

Senator MELCHER. Which two countries?

Mr. MYERS. Jamaica and the Dominican Republic.

Senator MELCHER. Congratulations on announcing them. Now, when do you expect more?

Mr. MYERS. Well, we are negotiating them.

Senator MELCHER. When do you expect the commodity to actually be in Jamaica and the Dominican Republic?

Mr. MYERS. The commodities are there, Senator, it is the usage of the funds that we are debating at this point. Also I am informed that we have this 108 program with Indonesia as well.

Senator MELCHER. Congratulations. Now, that is three countries and I am going to assume these are modest amounts.

Mr. MYERS. Right.

Senator MELCHER. Is my assumption correct?

Mr. MYERS. I would assume you are correct.

Senator MELCHER. And I would point out to you, Peter, that it is high time that you began using them. It is high time we get away from all this reluctance and floundering around. Do you want to testify—you are free to testify and I would welcome it if you would—that agriculture really has a problem on some of these programs, especially getting them cleared through this Mickey Mouse arrangement we have with the State Department on who does what when, and then meets again to figure out who does what, when, where?

Mr. MYERS. No comment on that, Senator.

Senator MELCHER. Well, why do you not admit that it is a big problem?

Mr. MYERS. I admit that it is something we continue to work hard at.

Senator MELCHER. Well, that is good enough for now.

Peter, is it not true that the President's budget shows cutting out meat and poultry inspection cost being charged against the United States and those fees passed on to the processors?

Mr. MYERS. Yes, we are asking in the legislation to have user fees for meat and poultry inspection.

Senator MELCHER. Is it not true that is a ridiculous idea?

Mr. MYERS. No, we think the idea has some merit, Senator.

Senator MELCHER. No, it does not have any merit.

Thank you, Peter, I will get back to you later.

Senator CONRAD. If I may just make a——

Senator BOSCHWITZ. Mr. Chairman, my subcommittee began at 10 o'clock in Foreign Relations. Are you going to abide by the normal procedure of going from one party to the other, or are you going to establish a new procedure?

Senator CONRAD. That is fine.

Senator MELCHER. Senator Boschwitz.

Senator BOSCHWITZ. I thank the chairman.

I would, by way of a statement, rather than a question, note that the total corn usage as it is now projected is indeed going up very nicely, and the December 1986 projection was 6.5 billion bushels, and the May 1987 projection for this marketing year, the 1986-87 marketing year, is 7.2 billion bushels, a rise of 11 percent over the 1986 projection, the December 1986 projection, and that the 1987-88 projection is still higher.

As a matter of fact, the 1987-88 projection is within just a very small amount of the highest usage on record, so it would appear to me that the farm bill that we have put into effect is operating pretty well. Is that a fair assumption to make?

Mr. MYERS. Yes, sir, it is a good assumption.

Senator BOSCHWITZ. I would say to the chairman that the December 1986 projection for 1987 was 6.475 billion bushels of corn, and now the May 1987 projection for 1987 usage is 7.180 bushels, almost 1 billion bushels more. The saying that low prices is the cure for low prices is seemingly beginning to work for corn. Usage is going up, and that is a very positive sign. Perhaps it accounts for some of the optimism that is found in the countryside, which I certainly find.

Have we seen, Mr. Secretary, any decline—the chairman spoke about wheat—in world plantings of wheat that could be attributable to the 1985 farm bill?

Mr. **Myers**. Yes, very definitely, and the major country that I would point to would be Australia, which has seen a decline in wheat acres.

Senator **Boschwitz**. I believe the Australians have even informed their farmers that they have 10 million tons of export obligations and that they had better plant because they may not be able to meet them, am I correct in that?

Mr. **Myers**. I am sure you are.

Senator **Boschwitz**. The Canadian plantings are down and some of the European plantings are even down, I understand, so that the impact of the 1985 farm bill is indeed being shown in world plantings as well as demand, is that right?

Mr. **Myers**. That is correct.

Senator **Boschwitz**. Is the demand for wheat up? Did you give some figures—it is not quite as dramatic as in corn?

Mr. **Myers**. Not as dramatic as in corn.

Senator **Boschwitz**. Is part of the reason that the demand for wheat is not up as much as corn that there is some shift in the case of feed, from feed wheat to corn.

Mr. **Myers**. I imagine that corn as cheap as it is and grain sorghum as well, that they would be feeding corn instead of wheat.

Senator **Boschwitz**. That is correct, but despite the fact that corn is being fed instead of wheat, the demand for wheat is nevertheless up over the year before.

Mr. **Myers**. That is true.

Senator **Boschwitz**. Even though the demand for wheat with respect to feed is down from the year before.

Mr. **Myers**. That is correct.

Senator **Boschwitz**. So the fact that demand for wheat is not up as much is understandable.

I would say, Mr. Chairman, I would say it more by way of comment than I do by way of question, though I certainly invite the Secretary's comments if he wishes, but as the Secretary alludes to in his statement, the 1985 farm bill seems to be working and we seem to be having an impact on planting and on demand and perhaps more meaningfully on negotiations as we see the statements of the OECD ministers and their emphasis, their very heavy emphasis on agriculture, an emphasis that we have never seen before.

So I would hope that the farm bill, as the chairman of this subcommittee has stated on several occasions now, would remain intact and I will oppose efforts to raise loan rates or raise, as a matter of fact, ARP's or other acreage controls because it takes a little time as far as I can tell for change in agriculture. When you seem to be going in the right direction one hates to change the course. Is that essentially what you said in your testimony here this morning?

Mr. **Myers**. Yes, sir, that is a very accurate statement and you pointed out another valid point, is the fact that this farm bill gives us a tremendous leverage point in negotiations with foreign countries in the MTN's.

Senator BOSCHWITZ. That seems to have been reflected in Uruguay first, where a number of countries in a way ganged up against the Europeans. Now, the OECD deliberations in Venice indicate a very marked emphasis that I have not myself seen before that the OECD nations apparently want to do something about agriculture.

Mr. MYERS. That is true.

Senator BOSCHWITZ. Specifically, the Europeans, do they also share this feeling?

Mr. MYERS. Well, of course, as you know, Secretary Lyng and Ambassador Yeutter and Under Secretary Amstutz do most of the negotiations, and from talking with them as they have come back, they say they are very much concerned with what we are doing. Your statement would reflect accurately their feelings.

Senator BOSCHWITZ. I thank the chairman for taking me in turn. I will apologize to my friend from North Dakota. I have to go down and argue about Honduras at the Foreign Relations Committee. But I think that the 1985 farm bill, Mr. Chairman, is proceeding forward very well and that the demand for corn, which seems to be recovering at a very fast pace and is within hailing distance of record use. The projections now are that the demand for corn will be within 154 million bushels of the highest ever demand for corn, and that exports are moving up particularly well.

So, as I have heard people say, one would not like to have low prices at any time, in my business or the farming business or any business, but the cure for low prices is low prices and it seems that the corner is being turned. In my State, the farmers seem to have a sense that they have bottomed out.

It is surprising to me, as a matter of fact, that corn is doing as well as it is, because when you and the chairman were talking about cattle prices, I know that the number of cattle is down by 30 million head. They chomp up a lot of that corn, 30 million head of those cattle, but yet the demand is quite strong, so I am fairly optimistic that we are going in the right direction.

I thank you, Mr. Chairman. I thank you for allowing me to proceed.

Senator MELCHER. Thank you, Senator Boschwitz.

For feeding corn at cheap prices, you mentioned $2 a bushel, did you not?

Mr. MYERS. Roughly, $2 a bushel is what we would guess at, as far as cost to the hog or the poultry feeder, but the income support price is much higher than that. The loan price is a shade lower than that. The target price was $3.03, the loan price is in the $1.80 range.

Senator MELCHER. I imagine there has been a lot of corn fed at $1.50 to $1.75 a bushel.

Mr. MYERS. There probably has been, in some interior States.

Senator MELCHER. So as always happens when you have cheap feed, you generally get cheap chicken and cheap pork and cheap beef. I guess the consumer benefits from that, but it certainly is not very good for the poultry person or the hog feeder or the cattle feeder, and we are paying for it out of the Treasury. That is where that big payment comes. We have kept these farmers whole or close to being whole as we could under the circumstances.

So now the Department and the administration is recommending lowering target prices. You testified that if there is no sequester, that the target price is going to rise. Just what do you mean by that?

Mr. **Myers**. Well, of course, last year our target prices were affected by the 4.3 percent Gramm-Rudman cut. This year they will not be affected, so they will go to the normal level as prescribed by law.

Senator **Melcher**. When do we have the cut in target prices.

Mr. **Myers**. Next year we start with a 2 percent cut.

Senator **Melcher**. The 1988 crop?

Mr. **Myers**. The 1988 crop.

Senator **Melcher**. So what you are advocating is that we cut it more, is that it?

Mr. **Myers**. We look at further cuts in target prices as a means to send a signal to the world and also to our own producers not to overproduce and as a very strong budgetary measure to save direct savings of money in our budgets in the outyears.

Senator **Melcher**. Very candidly, I do not think this subcommittee is going to lower target prices. I guess we are looking at cutting the deficit as far as the outlays are concerned from the Department of Agriculture for these various programs in some other way.

Does your projection show that this increase in exports or disappearance, very slight disappearance for wheat, probably a greater disappearance for corn is projected, do those projections show that the prices for wheat and corn might be a little bit higher in the marketplace.

Mr. **Myers**. I would say that the prices for wheat is a shade lower in the near years, and then it will begin to pick up. Prices for corn, if we can continue to cut supply, should come up, but it would be a gradual process. This is not anything that is going to happen in the marketplace overnight. Now, of course, we have had a runup in the market on our commodities in the last few weeks, in the futures market, but this is just the way the market reacts to dry weather and other factors.

Senator **Melcher**. Well, first of all, in wheat, what is the market, $80 to the Soviets or some other price?

Mr. **Myers**. Well, the world market price is about $80.

Senator **Melcher**. So after that recitation with Senator Boschwitz, there is less plantings in Australia and less plantings in the European Community, a slight reduction in carryover for the United States, you are saying that wheat prices are going to be lower than $80 a ton?

Mr. **Myers**. In the short term. In the long term, they should continue to strengthen as we begin to reduce this carryover and we have a reduction in planted acres by the rest of the world. As we work into this total carryover in the world, I think you will see wheat prices strengthened, but it is not going to happen immediately.

Senator **Melcher**. Why not?

Mr. **Myers**. Because we have too much wheat at this point in the world.

Senator **MELCHER**. You are saying that even with the reduction in plantings in Europe and in Australia—did you mention any other country?

Mr. **MYERS**. Basically, Australia and somewhat in Canada, but to my knowledge mainly in Australia.

Senator **MELCHER**. It is Canada and Australia and it is not Europe?

Mr. **MYERS**. Not to my knowledge, not Europe, Senator.

Senator **MELCHER**. I was taking Senator Boschwitz' comment as I understood it to mean that a decrease was in Europe. But with some decrease in plantings in Australia and in Canada, you are still projecting lower wheat prices in the market?

Mr. **MYERS**. Short term, not long term.

Senator **MELCHER**. I am talking now about fiscal 1988, is that short term or long term?

Mr. **MYERS**. That is short term.

Senator **MELCHER**. I thought so. But you are projecting lower prices during fiscal 1988, up to October 1?

Mr. **MYERS**. I am getting the even signal from my ace economists.

Senator **MELCHER**. They are better at giving signals than baseball catchers.

Mr. **MYERS**. They are pretty good economists. I have a lot of faith, I place a lot of trust in their judgment.

Senator **MELCHER**. All right.

Mr. **MYERS**. It is all conjecture, Senator, as you well know.

Senator **MELCHER**. I know it is. Now, how about corn, is that different?

Mr. **MYERS**. Corn is up, we think corn is going up.

Senator **MELCHER**. Is corn going to go up enough that it is going to be meaningful in saving on deficiency payments.

Mr. **MYERS**. No, sir.

Senator **MELCHER**. No. They are also pretty gloomy people behind you there.

Mr. **MYERS**. Well, they are realists, I guess that is what we have to be, and they are trying to be true realistic economists.

Senator **MELCHER**. The fact is that your exports really are not picking up that much.

Mr. **MYERS**. They are picking up.

Senator **MELCHER**. But they are not picking up enough, that is a fact.

Mr. **MYERS**. They are not at the level we were in the late seventies and early eighties when we had real problems with crops and the Russian——

Senator **MELCHER**. What would you allow for Export Enhancement sales of corn, how much a bushel?

Mr. **MYERS**. How much a bushel? None.

Senator **MELCHER**. None. You do not need to?

Mr. **MYERS**. No.

Senator **MELCHER**. So you are satisfied——

Mr. **MYERS**. Market price will sell corn, Senator, the corn is——

Senator **MELCHER**. What is the market price?

Mr. **MYERS**. Our loan price is probably the market price.

Senator **MELCHER**. The loan price is the market price?

Mr. Myers. World market. We are the major producers of corn in the world.

Senator Melcher. All right. What I am going to say is this: We ought to get rid of the surplus——

Mr. Myers. I agree.

Senator Melcher [continuing]. And let this price come up. Now, it is going to take some real action by the administration, and I use that term now meaning both Agriculture and State and the White House, all three, wanting to move out this surplus so we can let this world price start to come up.

If we do get rid of it and we let this world price start to come up in wheat and corn, we will not worry about the billion dollar savings, we will save it in deficiency payments.

Mr. Myers. That is true.

Senator Melcher. I think that is the way this subcommittee is geared. I am not sure what we will see before the summer is out, but I think that is the way we are geared. This idea of delaying as long as the administration has on utilization of the various types of export programs and not wanting to expand section 416 in a meaningful way or expand Public Law 480 in a meaningful way is not very wise, it is a lack of common sense.

I am a little bit confused now by what Senator Boschwitz said and your response to him. Does your response say that you do not want to change the farm program? Does that include soybeans? What is the position today of the administration on the marketing loan being applied to soybeans?

Mr. Myers. We are opposed to a marketing loan for soybeans, Senator.

Senator Melcher. And you retain that position?

Mr. Myers. Yes, sir.

Senator Melcher. Soybean processors, the last I heard, believe that it would be wise to change the law and allow soybeans to come under marketing loans, but you would have to be opposed to that?

Mr. Myers. Yes, we are opposed to a marketing loan for soybeans. We do have the option to put it in place under the farm bill, but right now we think we should just stay with the straight loan on soybeans. The soybean market has been quite healthy in recent weeks.

Senator Melcher. Would it change your mind if soybeans were $4.35?

Mr. Myers. Well, they are not.

Senator Melcher. Well, would you?

Mr. Myers. Not necessarily. The thing about that——

Senator Melcher. Think about it again.

Mr. Myers. We are always thinking about any option, Senator.

Senator Melcher. Well, I think that is the reason the processors were telling me a few weeks ago that they would like to see a change in the farm bill so that they would know that soybeans are under the marketing loans.

I have to ask you this: Have you got a cost figure on what certificates cost the Treasury?

Mr. Myers. We have a paper on that and I can give you a rough ballpark figure and we could submit the paper for the record, but it is about 105 percent of the original cost.

Senator **Melcher**. Some of the figures I have seen range from $300 million up to $500 million for a year's time. Are those figures accurate.

Mr. **Myers**. I will have to submit that for the record.

Senator **Melcher**. You would not agree with that?

Mr. **Myers**. It is too high.

Senator **Melcher**. It would not be if it is 105 percent. I think you have used a volume of certificates that would add up to something like $300 million. Could you submit a firm figure, is it possible?

Mr. **Myers**. We have a lot floating out there that have not been redeemed. It depends on the supply and demand for those certificates, so we will give you the best figure we can, but it will not be firm because we have certificates out there that have not been redeemed and they are going back and forth trading at different levels among the farmers.

Senator **Melcher**. Can you give me a figure on face value?

Mr. **Myers**. We will supply that for the record.

Senator **Melcher**. You mean there is no such figure for any period of time?

Mr. **Myers**. Maybe I am not understanding you, Senator.

We can tell you how many we have issued, yes.

Senator **Melcher**. Yes, that is what I am asking.

Mr. **Myers**. $8.4 billion, that is actual issue plus authorized to issue, rounded off to $8.5 billion as of April 15, 1987, and we will submit this to you.

[The information referred to was subsequently received for the record:]

DEPARTMENT OF AGRICULTURE
OFFICE OF THE DEPUTY SECRETARY
WASHINGTON, D.C. 20250

June 3, 1987

The Honorable John Melcher
United States Senate
Washington, D.C. 20510-2602

Dear Senator Melcher:

The "cost" of using generic certificates to make farm program payments depends on the supply/demand situation in the market at the time certificates are released to producers. In some supply demand scenarios, the use of generic certificates to make payments could probably reduce government farm program outlays. In many situations though, the Department of Agriculture agrees that the use of certificates will increase farm program outlays from 0 to 5 percent of the face value of the certificates issued.

To understand the impact of the use of certificates on outlays, let's look at two different supply/demand situations.

(1) Large free supplies and slack demand resulting in prices below the loan rate:

Certificates represent real bushels placed into the market. As more bushels are placed into the market with certificates, prices would fall, causing producers to place additional bushels under loan. These additional loan outlays would most likely not be fully offset by reduced cash program payments and reduced CCC storage, transportation and interest costs. In the Department, these added loan outlays caused by issuance of certificates are referred to as loan recycling. In this situation, the deficiency payment is already at its maximum since price is below the loan rate, so the use of certificates will not result in any impact on deficiency payments.

(2) Tight free supplies and strong demand resulting in prices above the loan rate:

As more bushels are placed into the market with certificates, prices would move lower. Since prices are already above the loan rate few additional loan outlays would probably result, but deficiency payments could be increased due to lower prices. Reduced cash program payments, CCC storage, transportation, and interest charges resulting from the use of certificates may or may not fully offset these increased deficiency payments.

Within these two supply/demand extremes are an infinite number of supply/demand situations which will result in different "costs" of using certificates to make farm program payments. When free supplies and demand are in balance, with prices near the loan rate, it is likely that the use of certificates would reduce government outlays.

The use of certificates has been very important in making U.S. commodities price competitive and improving the demand for U.S. farm products. Certificates helped alleviate the huge storage problems last fall and winter by releasing stocks into the market. The use of certificates to make farm program payments may have some slight cost, but the policy advantages of using certificates far outweigh this cost.

Sincerely,

PETER C. MYERS
Deputy Secretary

Senator MELCHER. Does that come out to—if it is 105 percent, does that not come out to about $425 million?

Mr. MYERS. It would come out to about $400-million-some-odd, yes, sir.

Senator MELCHER. Then that figure of between $300 and $500 million is accurate.

Mr. MYERS. It is a good ballpark figure, yes, sir.

Senator MELCHER. Is it worth it?

Mr. MYERS. I think it is because I think the certificates, as I stated in my statement and as I firmly believe, are one of our really good marketing tools as far as pushing our surplus commodities into the market. It is an awful good tool for the farmer and most of them are really beginning to use them intelligently and it gives them more for their commodity and in essence it has given us a marketing loan type of situation for corn. I think we will see this in this year's wheat crop as they learn to use these certificates to sell wheat. I think they are going to have a form of marketing loan, even though——

Senator MELCHER. $425 million is a fairly significant amount in anybody's budget. Is that in the President's budget as a cost item?

Mr. MYERS. Not that I am aware of, no. No, it is not.

Senator MELCHER. Pardon me?

USDA STAFF RESPONDS. The 105 percent I think we view as an upper limit. It ranges anywhere from neutrality to 105 percent, depending on the market conditions at the time we issue the certificates.

Mr. MYERS. I think the thing that you do not——

Senator MELCHER. Now, wait a minute. If that is not in the President's budget, do you see where it puts us?

Mr. MYERS. Sure.

Senator MELCHER. We have got to eat that in some way.

Mr. MYERS. Well, hopefully you would not have to, because the thing that does not show is the savings that are hard to show, because the crop that we are not having to store and the storage payments that we are not having to pay on all of this grain that has been pushed into the market by the certificates, and there again you cannot put a definite figure on that either.

Senator MELCHER. I imagine you put some figure on it.

Mr. MYERS. We put a figure——

Senator MELCHER. A cost figure, I imagine you put it in there.

Mr. MYERS. That is true.

Senator MELCHER. You have figures in there that show that you have less than you are going to pay storage on, less transportation charge, so the savings is already in there, just like the savings of the $340 million on meat and poultry inspection, which anybody down there in your Department knows we are not going to pass, so we have got to eat that $325 to $340 million, and now we find out we are going to have to eat some more. How is Congress supposed to come up with a budget?

Mr. MYERS. Well, I guess they use figures to the best of their ability, Senator.

Senator MELCHER. We have to use figures that are fiction. The meat and poultry inspection being paid by the processors is in the President's budget as a savings but we all know it is not going to happen. That simply is not going to be—it was not, is not and in the future will not be made the law of this country. We will not pass on those charges for meat and poultry inspection, which is a public health measure, to the processors. Everybody knows we are not going to do that.

So we have to find some money to make up for these fictional items. I do not know how we are going to do it, but I think we have to have some idea what this cost is actually going to be. If the certificate cost is 105 percent—and I recognize that you say that is an upper limit, it may be well below that, we ought to know. We ought to know before this summer is out. I hope you can update some figures for us later on, Peter.

Mr. MYERS. We will attempt to do that.

Senator MELCHER. How much have the certificates lowered the price of corn or have they had an effect on it?

Mr. MYERS. They have an effect on the price of corn. The more certificates you use, the more the price of corn in the marketplace goes down; the less you use, the more the price comes up in the marketplace, there is no doubt about that. When you——

Senator MELCHER. Then they also have an effect if the loan price is about the world price and you lower that below the loan price. It is going to have an effect on the deficiency payment, too, is it not?

Mr. MYERS. No, the deficiency payment will be locked in between the difference between the loan price and the target price.

Senator MELCHER. It would not have any effect on that.

Mr. MYERS. You cannot go any lower than the loan price.

Senator MELCHER. But certainly if you are about at the loan rate on world price, if it could come up 10 cents a bushel, that could have a great effect on reducing deficiency payments?

Mr. MYERS. Oh, yes.

Senator MELCHER. So there are a lot of ifs and buts in the certificates.

Mr. MYERS. And that is one reason we are a little uncomfortable with making all of the deficiency payments upfront, because as a farmer you have to be an eternal optimist, as you well know, and hope that that market price will come up for some reason or another.

Senator MELCHER. It would be fair to say that the use of certificates may have lowered the price of corn in the marketplace domestically by about 15 cents a bushel?

Mr. MYERS. That would be a very fair statement.

Senator MELCHER. That would be a fair statement?

Mr. MYERS. It could even be lowered more.

Senator MELCHER. It would be in your economists' range?

Mr. MYERS. Yes.

Senator MELCHER. What did you say about payment limitations?

Mr. MYERS. We have sent up some legislative language, but we also administratively are looking at payment limitations. The bottom line on payment limitations is that we are trying to allow the bona fide producer who is producing, in putting labor and capital, should be considered as an entity. Now, we cannot do that with the present law, because if we would have a family corporation, for instance, that would be one entity, even if it was a father and two sons. We would like to see that changed.

Senator MELCHER. What would you change it to?

Mr. MYERS. Hypothetically, if it was a father and two sons and they were all putting labor and capital into the business and it was not somebody off at college or some place else, we would think, for instance, in that case there should be three entities in that unit. We cannot do that legally right now.

Senator MELCHER. So then you need a change in the law?

Mr. MYERS. Yes, sir.

Senator MELCHER. But that is not opening up the farm bill, is it?

Mr. MYERS. It would be. Is that the farm bill—not the 1985 farm bill, no, because that is something we have dealt with previously.

Senator MELCHER. You had better go back and look at that bill.

Mr. MYERS. That is not——

Senator MELCHER. We put in the 1985 farm bill some changes in payment limitations.

Mr. MYERS. But we also have had previous legislation that addresses that, so I think we could go back to the previous legislation, for instance, in this instance on the farm corporation. It forced a lot of good businessmen out of farm corporations because of this particular situation.

Senator MELCHER. You sent your preferred language up here?

Mr. MYERS. Yes, sir.

Senator MELCHER. We will want to examine that and we invite testimony of all groups, producers, individual farm producers, commodity groups, farm organizations in the subsequent hearings we will have in the subcommittee to examine the proposed language by the Department, because this is one of the areas where I feel personally we have to be sure that we have rectified whatever is wrong with it—I see errors on both sides. In fact, we have constituents that tell me that the way they understand the law, it is pretty loose and that you can be a partner by investing some capital but not labor and that you can live remotely from wherever the farm operation is.

On the other hand, I have bona fide family operations, just as you have described, Peter, that find themselves in a bind.

Mr. MYERS. That is right.

Senator MELCHER. Therefore the payment limitations limit, I believe, should be for true bona fide operations that are separate entities and therefore entitled as a single entity to the payment limitation on their own. This would include examples such as a family with two sons or three different units, but in a family corporation for other reasons than the farm operations and wanting to be able to get one $50,000 limitation. I have constituents on both sides of this and I want to carry it out like we used to believe it was under the law. That belief is that where the bona fide operators who are there farming and are investing their own money are considered a single entity and not wrapped into one simply because they are related to each other or share equipment.

Mr. MYERS. It is an extremely tough situation, because as the deficiency payments become such a big part of income, it causes people to look very carefully at the law and the regulations and it has caused some distortions I think.

Senator MELCHER. I think I have covered the points I wanted to raise with you. I think it would be wise if we kept the record open for other members of the subcommittee or the full committee to submit questions. You would not have any problem with that?

Mr. **Myers**. No, sir, I would be glad to answer those.

Senator **Melcher**. Thank you very much.

The subcommittee is adjourned.

[Whereupon, at 11:28 a.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, June 18, 1987, in room SD-562, Dirksen Senate Office Building.]

THE CURRENT STATUS OF FARM PROGRAMS

Testimony on the Status of Farm Programs and S. 658, the Family Farm Act

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THURSDAY, JUNE 18, 1987

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room SD-562, Dirksen Senate Office Building, Hon. John Melcher (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Melcher, Conrad, Heflin, Daschle, Bond, and Wilson.

Also present: Senators Harkin and Boschwitz.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. The subcommittee will come to order.

This morning we will have our first day of hearings on the various segments of the 1985 farm bill and today's hearing will be for the purpose of reviewing the bill, S. 658, introduced by our colleagues on the committee, Senator Harkin and Senator Daschle. We will follow on next Tuesday, June 23, with another hearing by the subcommittee to receive the testimony of farm organizations. Then on Thursday, June 25, we will have the third day of hearings to receive testimony from commodity organizations with any recommendations they want to make.

We are embarked on these Senate hearings on the proposition of just how good is the Food Security Act of 1985. Is it working? Where are the flaws? What should be done to correct it? That is a task that this Congress must face and most particularly this subcommittee and the full committee. We must rapidly develop any amendments that we think are essential.

Senator Daschle.

STATEMENT OF HON. THOMAS A. DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator DASCHLE. Thank you, Mr. Chairman.

I commend you for holding these hearings and very much support the idea of examining, now that the farm bill is several months old, how well it is doing. I think when one measures the various criteria by which one judges success, one has to come to the conclusion that at least in certain segments of agriculture this farm bill is a failure. It is a disaster if one measures success by how many farmers are on the farm today and what the attrition is each and every day.

When it comes to wheat and feed grains in the Upper Midwest, this farm bill is a failure. When one measures how much this farm bill costs the American taxpayer, realizing that the subsidy paid to farmers really will only be an insurance policy when the market does not work appropriately, we have to rely upon subsidy and we are relying upon subsidy at a rate greater than at any time in American history. So this farm bill is not working.

When one comes to the conclusion, as I have, that the farm bill needs to be changed, one can only look to measures like Senator Harkin's and others, to give us some hope that rather than deriving income from the Government, rather than continually utilizing the insurance policy that we put in place, we draw money from the market. We give farmers an honorable way to derive their income like everyone else, and I think this hearing is testament not only to the failure of the farm bill, but it is a testament to the interest that is there throughout the country.

The farm bill is no longer an agricultural issue. It is a sociological issue. It is an issue that takes broad scope when it comes to those people who understand the plight of the family farmer, who understand the kind of role of agriculture as we have known it in this country, the fabric of rural America in providing the quality of life in rural America that apparently only certain people understand.

We have people here who have made a major commitment in their lives, both professionally and personally, in Willie Nelson and John Mellencamp, and I think that is the epitome of the kind of support and the kind of strong willingness on the part of so many Americans to demonstrate their willingness to stand by the farmer, to stand up for the kinds of changes for which we advocate, and to indicate to us that with this Congress we can make the appropriate changes in farm policy to give our farmers hope once again.

Thank you, Mr. Chairman.

Senator MELCHER. Thank you, Senator Daschle.

Senator Bond.

STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator BOND. I will just make a few brief comments, Mr. Chairman.

I appreciate the opportunity to hear the testimony today, but I will tell you that in Missouri we have had the opportunity to look at the concepts involved in this program. We have talked about it at length, and we have looked at some of what I consider to be the very serious shortcomings in it.

I would like to bring up a point that I think is very important. First, because the entire Agriculture Committee has just gone through a lengthy discussion and markup on the trade section of the agriculture bill. On the agriculture side of trade, if we were to attempt to set prices in a collectivized agriculture, we would forfeit our world export market more surely than the high loan price supports cost us in our markets in the past. We have been on the path to try to recoup agriculture exports, a very important market for our farmers, approximately 40 percent of the market. To give up those export markets through the kinds of barriers that we would have to erect at our border would go directly contrary to everything that we have attempted to do in the last weeks as we marked up and worked on agricultural trade issues.

I feel that this would be a disaster which would be reflected in the fact that we could lose markets for 40 percent of our farm exports. That, along with the other reductions in farm production, would mean that tremendous markets for seed, feed, fertilizer, implements, servicing, and equipment would be lost. The people in rural America who supply and support agriculture would feel the brunt. Those truck drivers who haul to the export market would find themselves out of work, as would the terminal operators.

In my part of America, rural Missouri, we have talked about the concepts of working to expand our markets abroad, getting more markets for our farmers, and not going the route of production controls. I can tell you from having spent a good deal of time talking with the people who would be most effected, there is grave concern that this approach would cost jobs and would destroy rural Missouri and, I feel, much of rural America.

Certainly, the objectives are noble. We all want to see better income, better opportunities for our farm families who have suffered a great deal. But going in this direction I feel would not be the right way to solve the problem. It would, indeed, cause far greater problems for farmers, for the men and women of rural America who depend upon supplying, supporting and providing transportation for agriculture.

Thank you, Mr. Chairman.

Senator **Melcher**. Thank you, Senator.

Our first witness will be Senator Tom Harkin, our colleague on the full committee.

Tom, please proceed.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator **Harkin**. Mr. Chairman, thank you very much, and members of the subcommittee, for allowing me this opportunity to testify both on behalf of a specific bill, S. 658, the Family Farm Act, which I am the key sponsor of, and also to testify in a broader sense about the condition of American agriculture today.

As I was coming to the door, someone said to me, "Well, Harkin, I see you are back again."

I just want to correct that record, Mr. Chairman. I am not back again; I never went away. I do not intend to go away. I believe that as long as it takes, we have to continue this fight for common sense, because, I believe, in the long run, common sense is going to overcome the misinformation and the outright distortions emanating from this administration and from those who have a vested interest in having a plentiful supply of cheap grain, even though it wreaks hardship on millions of family farmers and bankrupts most of rural America.

There are those who say my approach will bankrupt rural America. Well, what is happening today under the present farm bill? I want to get into my prepared statement and point out some of the things that are happening in rural America. I believe that common sense dictates that farmers ought to be allowed to pull themselves together in some kind of a cooperative movement so they can limit their supply to meet demand and can get their money from the marketplace and not from a Government paycheck.

Mr. Chairman, I say this as someone who represents a very rural State, I think it is scandalous that, this year, 50 cents out of every $1 of farm income is coming from a Government paycheck. There is something wrong in America when we have made our family farmers welfare recipients, that grovel for a Government check which is subject to the whims of our budget procedures.

If what I see coming works out, it looks like farm income will be reduced next year because we will have to cut the budget for farm price support payments. Something has to be done to allow farmers to get their money not from a Government check, but rather, based upon a real value for their work—what they have invested in time, labor, and money in their land.

That is why I have long been advocating a program that will pull farmers all together and give them a right to vote in a referendum to limit their production to get it in line with demand so the marketplace price will go up.

I would like to discuss briefly today, Mr. Chairman, what I view are the compelling arguments for this type of policy, and I hope to put to rest some of the happy talk we keep hearing about the farm crisis being over. I have heard it stated and I have read that somehow the farm crisis is over.

Well, Mr. Chairman, I will say this. I think the fever has come down, but the patient is still sick. True, it is not as bad as it was last year or the year before. It is slightly better. I have heard those who say farm income is up a little bit. As I said earlier, the situation reminds me of my hometown basketball team. They went 2 years without winning a basketball game. The third year they finally won one game, and the headlines in the paper were, "Coach Says Team Is Doing Better." That is about where we are in agriculture. We have had some bad times. Farmers are doing a little bit better, you know, but it is because they are getting 50 cents of every $1 from a Government paycheck.

If we want to commit ourselves to this type of system, then so be it; but I think reality dictates that we are not going to continue this very long. In fact, we know those Government paychecks are going to be cut out.

The crisis, as I say, may have subsided, but the patient is still very, very sick.

As evidence, I submit some data from my own statement, Mr. Chairman. I will read some representative figures on the value of farmland. This is average farmland in the State of Iowa: 1981, $2,147 an acre; 1983, $1,691; 1985, $948 an acre; last year, $787 an acre.

This decline has wiped out over $45 billion in farmland equity in Iowa since 1981. Some have suggested that land prices have stabilized, and I hope this is the case, but recent evidence suggests otherwise. Mr. Chairman, this week I received a press release from the Farm Credit System. They said, so far this year in Iowa they have sold 1,232 farms from their inventory at an average value of $722 per acre. That is an 8 percent decline from last year's average.

Let us take another look at whether or not farmers are doing better in Iowa—look at the bankruptcies. Bankruptcy filings in Iowa: 1983, 3,457; 1984, 3,915; 1985, 5,578; 1986, 6,367; 1987 as of May 31, we are up to 2,771. If we continue on this track, and everyone says we will, we will have 6,650 bankruptcies in Iowa this year, which is, indeed, more than last year.

If I sound like I am getting a little mad, I am. I get mad when people tell me the farm crisis is over and farmers are doing better. In Iowa, I see my farmers going bankrupt, and I see what is really happening.

What is the outlook for those farmers who remain? A recent financial survey said that 26 percent of all farmers in Iowa are still under severe financial stress. Well, I suppose, Mr. Chairman, there are those who look at that and say, well, then 74 percent of the farmers are all right if only 26 percent are in severe financial distress. You might say that. It is true, but I would like to look at it from a different viewpoint.

The situation is not unlike when FDR came into office. He said, "I see a nation one-third ill housed, one-third ill fed, and one-third unemployed." He could have said, "I see a nation two-thirds housed, two-thirds fed, two-thirds employed, and things are just fine, aren't they?" But, he understood that when that many Americans are in that kind of trouble, the rest of America is in trouble too. That is what I say about agriculture. When that many farmers are in trouble, the rest of the farmers are in trouble because they are right on the edge of going down next.

I think some of this data, Mr. Chairman, clearly demonstrates that the farm crisis is not over. If the present farm bill is allowed to work its course, we are going to have more bankruptcies, more and more accumulation of land into fewer and fewer hands and bigger landowners, and more and more small towns disappearing off the face of the map in Iowa, Montana, Missouri, and everywhere else in this country. We are going to wind up with a nation of few landowners owning great tracts of land just like in Central and South America today. Is that progress?

Some observers, Mr. Chairman, say the debate is really a debate between the free market and Government controls in agriculture. Nothing could be further from the truth. Under our present program, the free market only gives farmers the freedom to go broke—to go out of business and leave the land. You talk about getting the Government out of agriculture. The fact is, the Government has been in agriculture since the first spade of dirt was turned in this country and always will be, because an affordable and reliable supply of food is every bit as much in our national interest as a good military force. For this reason, Government is going to be involved in agriculture.

The only question we have to ask is, how? Will it be involved as in the present system of making payments to farmers and then pulling the rug out from underneath them some time down the road? Will the Government set up a system where the farmers, themselves, decide on a decent price in the marketplace?

Quite frankly, the present program is a mandatory program, Mr. Chairman. I talked with a woman in Iowa a few weeks ago. She came up to me and told me her family had never been in a farm program before, but they were in the farm program this year. I asked, "Why?"

"Because my banker told us we had to. If we didn't go in the farm program, we would get no credit," she replied. So, tell me the present farm program is voluntary when this kind of thing happens. It is no more voluntary than programs in other countries where they admit that they have mandatory programs.

As I said, Mr. Chairman, the real question is whose interest the Government is going to serve. Quite frankly, over the last several years, and I am going to be as forthright as I can in saying this, the food processing industry in this country is making unconscionably large profits. I do not mind them making profits, but when they squeeze them out of the farmers and then gouge the consumers, I say it is unconscionable.

Let me give you some data I obtained from the Forbes annual survey. For the 50 food processing firms surveyed, sales over the last 12 months increased 6 percent. Their profits increased 13 percent. Compared to all other nonfood industries, their sales were up 3.9 percent and profits were up 2.8 percent.

Over the past 5 years, while most farmers experienced a negative net return on equity, the 50 top food processing companies included in the Forbes magazine's annual industry survey had a tremendous return on equity. Kellogg's had a 33.4 percent return on equity; Monfort of Colorado, 31.9 percent; RJR Nabisco, 22.8 percent; ConAgra, 22.2 percent; HJ Heinz, 21.2 percent; Ralston Purina, 19.1 percent; Pillsbury, a 17.2 percent return on equity.

Mr. Chairman, my farmers would be darn happy if they could get a 1 percent return on equity just for 1 year, let alone a 33 percent or a 19 percent return. But I think this really tells it all, Mr. Chairman. In 1981, the average retail price of a box of Wheaties was $1.04. In 1981, the value of the total amount of wheat in that box added up to about 2.5 cents. By 1987, the price of that same box of Wheaties went up to $1.41 cents, but the wheat value had fallen to 1.5 cents. In other words, the price of the box of Wheaties went up 36 percent to the consumer, but the wheat prices fell by more than 40 percent to the farmers. That is what is happening in agriculture.

General Mills and other food processors now sound the clarion call of consumer advocacy, and it rings hollow, to say the least. I do not mind these companies making profits. After all, that is what turns the wheels of industry. But, when they make these kinds of profits and do not allow farmers to make a profit, then I say it is unconscionable.

President Kennedy said it correctly when he said so many years ago, "It must be our purpose to see that farm products return a fair income because they are fairly priced. No farm program should exploit the consumer, but neither can it subsidize the consumer at the cost of subnormal income to the farmer." I guess that is really what we are seeing now.

Well, the question is, will we continue down this current road, or will we change our path? I think our starting point, Mr. Chairman, has to be twofold. First, how do we reduce Government costs? Second, how do we increase farm income?

I think that is really the fallacy of the 1985 farm bill. Its starting point focused on how to increase exports at any cost. However, what good does it do us to double our exports if we keep getting less and less for them? What good does it do us, Mr. Chairman, to export 3 billion bushels of wheat a year if we get only 50 cents a bushel for it? How can that possibly help our country? That is what we are doing right now. We are increasing, or trying to increase exports by driving the price down to nothing.

If you look at the recent data, it clearly points out that the value of our exports has gone down even as the volume has slightly risen.

For example, Mr. Chairman, in feed grains, since the 1985 farm bill has passed, it has been projected this year that our exports are going to rise from 36.4 million metric tons to 47 million metric tons. Hallelujah, that is great. We have increased the exports of the feed grains. But, let us look at the unit value per ton of this grain. The value has gone from $126 per ton down to $97 per ton. So, when you figure it all out, we are getting less. We are exporting more and getting less for it while our farmers are going broke.

I wish someone could explain the economics of that to me and how that is going to help our farmers.

Senator BOSCHWITZ. Would you repeat those figures?

Senator HARKIN. For feed grains in 1985-86, we exported 36.4 million metric tons. Estimates that are predicted for this year are 47 milion metric tons. Remember that is an estimate, but I will accept their estimate on that. The unit value will go from $126 per ton down to $97 per ton on the feed grains.

Here is the value. The value, in billions of dollars for 1985-86, was $4.6 billion; for 1986-87, it is estimated to be $4.6 billion. So we have gained nothing except busting a lot more farmers.

Mr. Chairman, let me contrast that, if I could, to what it was in earlier years. In 1980-81, we made $10.5 billion off our feed grains. Since then it has gone down: $7, $6, up to $8, $6, and now it is down to $4.6 billion. In 1979 and 1980, we made $9.1 billion. In 1978-79, we made $6.6 billion. We are not even back to where we were in 1977-78 in terms of the amount of money we are receiving for what we export. I said we are exporting an estimated 47.2 million metric tons this year. In 1977-78 we exported 56 million, so we are not even back to where we were in 1977-78.

Mr. Chairman, I have a couple charts I wanted to show as an illustration of the comparison of the Harkin-Gephardt bill to the 1985 farm bill. The first one shows, as a relative indication of Government costs from 1988 to 1990 under our bill, that we would save the Government about $23.5 billion under the Harkin-Gephardt bill. So, that is the savings our bill would mean to the Government.

On the other hand, what happens to net farm income is that it would be 70 percent higher, and by 1995, 160 percent higher under our bill than it would be if we continued on with the 1985 farm bill. The last chart deals with exports. This chart really tells it all.

I agree that, under the Harkin-Gephardt bill, exports will not increase as rapidly as under the 1985 farm bill volume-wise, but, the tell of the tale is, how much you get for it. Under our bill, it is estimated that we would get $248 billion. Under the 1985 farm bill, we would receive $137 billion between now and 1996. I think, again, that tells a tale. I am not so interested in how much we export. I am interested in how much we get for what we export.

To those who say we are going to price ourselves out of the world market, I cannot believe that. I just returned from Europe and had some meetings with some agricultural experts over there. Mr. Chairman, we can drive these prices down to almost nothing, but if we think that means France or West Germany or Great Britain or Japan or any of those countries are going to drive their farmers off the farm or that they will go to a different system of agriculture because of what we are doing, then we are smoking something funny. They are not going to do that. They are just simply not going to do it.

It goes back to centuries and centuries of traditions in their systems. They are not going to give up their independence and their self-sufficiency in food. They are ready, however, to meet with us to work out agreements in terms of putting caps on Government expenditures, fixing market shares, and sharing carryover stocks. They are willing to do that right now, and I think that is the way we ought to go. I might add, the provision to do just that is in the Harkin-Gephardt bill.

Lastly, Mr. Chairman, there are those who say that we are going to gouge the consumers here. The studies done on our bill say, if fully implemented, it would increase consumer prices about 1.6 percent per year. The studies that we have had done by the Food and Agricultural Policy Research Institute at the University of Missouri and Iowa State University indicate the actual increases during the past 8 years. Mr. Chairman, I would like to ask that these charts and the data from this study be included in the record at this point.

Senator MELCHER. Without objection.

[The charts can be found on pages 61-63.]

Senator HARKIN. The chart shows that the percentage increases over the last 8 years are actually more than what they will be under the Harkin-Gephardt bill for the next 8 years. I think this last chart I have, Mr. Chairman, shows what is happening here. We see how many more billions of dollars people are spending on food, but where is the money going? It is not going to the farmer; it is going to marketing costs. The farmer is getting less and less of a share of the dollar spent by the consumer every year as was witnessed when I talked about the price of a box of Wheaties. The wheat farmer's income is now down to 1.5 cents for each box of Wheaties. Here are the figures that correspond to that chart, Mr. Chairman.

In 1976, farmers got 32 percent of the consumer expenditure for food. In other words, the farm value was 32 percent of the food dollar. The farm value is now down to 25 percent, and it is going down every year. The farmer is getting less and less.

Mr. Chairman, let me close by saying that I believe the people of this country are ready for a change in our farm policy. I think consumers are unhappy that we are spending so much money every year, and that most of that money is going to the largest of our farmers while family farmers are driven off the land. Poll after poll I have seen indicated the consumers would pay a little bit more for their food if they could be assured that money went to help family farmers, not just to line the pockets of the big and the rich. Under our bill, we can do that. We can assure those consumers that a 1 percent increase in the price of food is going to go right back to those family farmers, not just to the food processors and the food companies.

I believe it is a concept that we really ought to pursue. Let these farmers vote in this referendum. Get away from these bin-busting surpluses that are followed by scarcities. Those who want to get the Government completely out of agriculture want to turn the clock back to the 1920's. I only ask them to read what agriculture was like in the 1920's with the boom and bust cycles. Well, we do not want to go back to that.

What we need now is to reverse this course. We need a farm program that is based on common sense and what is happening in the real world—not a farm bill that is based on ideology alone.

Mr. Chairman, I will close with this remark. The present farm program, I submit, is the greatest payoff to ideology in our Nation's history.

Thank you, Mr. Chairman.

[The prepared statement of Senator Harkin and charts referred to above follows:]

Testimony of
Senator Tom Harkin
before the
Subcommittee on Agricultural Production
and Stabilization of Prices
United States Senate
June 18, 1987

Mr. Chairman, thank you for the opportunity to testify here today and for calling this series of hearings to review farm programs. As the sponsor of S. 658, the Family Farm Act, I have been an advocate of the idea that farmers be permitted to vote in a producer referendum on a mandatory production control farm program for our program crops as an alternative to the present program. I believe that this approach offers our best hope to stabilize and maintain our family farm system of agriculture, relieve the economic crisis facing many farmers, and bring some economic sanity to our farm programs.

Today, I would like to discuss what I view are the compelling arguments for this type of policy approach and impress upon the subcommittee that, contrary to much of the "happy talk" circulating these days, the farm crisis is not over, nor do I believe that we have hit the bottom.

As evidence of this, I submit data from my own state. Iowa has led the nation in farm land value declines. Each year, Iowa State University does a state wide survey of farm real estate transactions to determine average farmland values. Results for recent years are as follows:

Year	Value per acre
1981	$2,147
1982	1,801
1983	1,691
1984	1,357
1985	948
1986	787

This decline has wiped out over $45 billion dollars in farmland equity in Iowa since 1981. Some have recently suggest that land values have stabilized, and I hope this is the case, but recent evidence suggests otherwise. This week I got a press release from the Farm Credit System announcing that so far this year in Iowa they had sold 1,232 farms from their inventory at an average value of $722 per acre. That's an 8% decline from last year's average.

Another index of financial stress is the number of bankruptcy filings. Listed below are the annual number of bankruptcy filings in Iowa. Because the Iowa economy is almost entirly based upon agriculture, this is a good reflection of stress in the agricultural economy.

Year	Bankruptcy Filings in Iowa
1983	3,457
1984	3,915
1985	5,578
1986	6,367
1987 (as of 5/31/87)	2,771

Note that the rate of filing for 1987 still exceeds that of last year (6,650 when projected for 12 months).

What is the outlook for those that remain? A recent financial survey conducted by Iowa State found that 26% of all Iowa farmers are still under financial stress--just slightly fewer than last year at this time.

These data must be kept in mind when one considers the rosy farm income projections now emanating from the USDA. What is happening under our current farm policy is an acceleration of the "rich get rich, poor are getting poorer" approach of this Administration. Sure, some farmers are doing very well. They are the fortunate ones with very low debt, but for the most part they are doing well at others expense. First there are those who are doing a good job of farming the farm program, reaping large government subsidy checks, and the others are livestock producers who have benefited from the artificially low grain prices which the current policy has created.

In summary, I think these data clearly demonstrate that the farm crisis is not over, and that if allowed to work its course, the 1985 farm bill will further aggravate the problem as it steps down farm income over the next several years.

Some observers inaccurately portray the farm policy debate as the "free market" versus "government control." Nothing could be further from the truth. Under our current program, the free market offers grain farmers only the freedom to go broke.

Despite all the bold rhetoric about "getting the government out of agriculture," the fact is that an affordable and reliable supply of food is just as essential to our national security as our military forces. For this reason, government has been involved in agriculture since the first spade of soil was turned over in this country -- and always will be.

When the cash price of corn is $1.40 per bushel in Iowa and the target price is $3.03 per bushel, the farm program is economically mandatory for corn producers. Nothing could be much more "mandatory" than the current program. So I believe the real debate, at least for the foreseeable future, is what type of mandatory program will we have? Whose interests will the government defend -- that of the family farmer, or that of the food processing conglomerates that have profited so handsomely from our current program at the expense of the farmer and the taxpayer?

To illustrate this point, I obtained the most recent data from the Forbes annual survey. For the 50 food processing firms surveyed, sales over the latest 12 months increased 6.0%; however, profits increased 12.9%. Comparable all-industry medians were 3.9% and 2.8% respectively.

Over the past five years, while most farmers experienced a negative net return on equity, the fifty top food processing companies included in the Forbes Magazine's annual industry survey averaged a 14.6 percent positive return. To cite some examples: Kellogg, 33.4 percent; Monfort Colorado, 31.9 percent; RJR Nabisco, 22.8 percent; ConAgra, 22.2 percent; HJ Heinz, 21.2 percent; Ralston Purina, 19.1 percent; Pillsbury, 17.2 percent; and Quaker Oats, 16.7 percent.

Will we continue down the current road which subjugates farmers into groveling for their government check, whose size and timing is continually subject to the slippery slope of Congressional budget procedures? Or would farmers prefer to join together in a cooperative effort to boost their market prices and bring supply in line with demand?

Our starting point in this farm policy debate should be how to (1) substantially reduce the cost to government farm programs and (2) increase farm income. During the 1985 farm bill debate the starting point seemed to be how do we increase exports. I believe hindsight clearly shows that that was the wrong starting point. Despite the incentives of export subsidies and marketing loans, U.S. agricultural export volume is expected to rise only modestly this year, while export values will continue to be far below those of a few years ago. In what sense do we gain by increasing export volume at the expense of export values? Most trade experts agree that low prices and subsidies will not buy back market shares. Clearly, they will not buy back U.S. farm prosperity.

I believe that replacing the current direct payment program with a program consisting of mandatory production controls in conjunction with higher loan rates makes good sense for both farmers and taxpayers. This type of program must be mandatory, because voluntary programs contain one fundamental flaw -- whenever a farm program produces a production response sufficient to increase market prices to levels that approach or are in fact profitable, some producers will bet they can do better financially by farming fence row-to-fence row outside of the program. Invariably this increases surpluses, depresses market prices, and the cycle starts all over again, placing producers on a continual tread mill of low returns.

Increasing market prices permits the farmer to receive his income from the market. Users of grain such as export buyers, food processors, and livestock and poultry producers, will pay a higher price for grain -- a price that more accurately reflects the real costs of producing that grain. Government costs are reduced because deficiency payments would be eliminated under this approach.

Perhaps the best analysis to date of this approach has been conducted by the Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri and Iowa State University. This analysis compared my bill with current law. The key assumptions were that direct payments are discontinued and loan rates were increased to 71% of parity for the 1987 crop ($5.17-wheat, $3.77-corn, and $9.32-soybeans) increasing by 1% of parity annually thereafter. Export trade shares are assumed to be constant as a result of a international agreement.

The accompanying charts summarize the results of this analysis on my bill. Of particular interest are the following:

- Net farm income for the study period 1988 through 1995 increased an average of $21 billion annually (the difference between $45.7 billion as compared to $24.4 billion annually projected under the current program);

- Government farm program costs decreased on average $14.4 billion annually, $23.5 billion over the next three fiscal years;

- Export earnings increased more than $12 billion annually, a 78% increase through the study period.

Mr. Chairman, these results confirm that my approach would provide for both a substantial increase in farm income and a reduction in farm program costs. On the final point dealing with trade, I would reemphasize the importance of developing an international grains agreement in the areas of price, production controls, capping price support and export subsidy expenditures, and sharing carryover stocks. Without progress in this area, any farm program we might try to construct in this Congress will falter. The United States is the dominant force in world grain and oil seed trade. Presently that force is being used in a predatory manner in a futile attempt to regain market share. Alternatively, I believe we should use that power in a positive manner to provide the leadership necessary to construct an international grain agreement. The FAPRI report confirms that while an agreement of this type could result in a modest loss of export volume, this loss would be more than made up for by the increase in export revenue.

On another issue, critics of my proposal will argue that this bill increases consumer food prices. It is true that if all of the increase in commodity prices created by my bill were to be passed on directly to the consumer, there would be an increase in food prices (an assumption which may not be true given the current profit levels of the food processing industry). However, because the farmer receives such a small percentage of the consumer's food dollar, the increase would be modest. The average yearly increase in the cost of food under my bill over and above the cost increases which would occur under the current program, is only 1.6% per year over the next nine years.

The impact that this increase would have upon the poor is a legitimate concern. I for one would be willing to offset this increase in our food assistance programs and in fact have taken the additional step of including the provisions of the Kennedy/Panetta Hunger Relief Act into my bill.

Perhaps one of the most legitimate concerns raised by a policy change of the type contemplated by my bill is the impact it would have upon the profitability of the livestock sector. To mitigate the impact of increasing grain prices, my bill contains a livestock transition program which would permit livestock producers to purchase CCC-owned grain for a period of up to three years. Once the transition to these higher prices is achieved, I believe livestock producers will benefit from having a more predictable and stable grain price rather than being subject to the shocks of fluctuating grain prices as in recent years. Already we see signs of unwarranted expansion in livestock production being fueled by current low grain prices, and I am reminded of the old Iowa adage that "cheap corn means cheap hogs."

The concept of my bill would represent a sharp departure from current policy, but it is by no means a radical new idea. In his 1960 presidential debate with Richard Nixon, Kennedy stated:

> In my judgment, the only policy that will work will be for effective supply and demand to be in balance, and that can only be done through governmental action.

> ...that in those basic commodities which are supported, that the federal government, after endorsement by the farmers in that commodity, attempt to bring supply and demand into balance and attempt effective production controls.

The farm crisis today is simply a case of having too much grain with nowhere to go. Even the Reagan Administration is belatedly coming to the conclusion that supply management is the answer. Yet it clings blindly to a belief in a non-existent free world market while spending billions on diversion payments and bonus conservation reserve payments -- all terribly inefficient attempts to reduce surpluses.

In conclusion, Mr. Chairman, the time has come to change direction in farm policy -- away from the bin-busting surpluses and cheap grain gravy train. Grain buyers in this country and abroad are becoming addicted to cheap grain. The farmers of America need your help now to reverse our present disastrous policies before this addiction becomes permanent. Let us return prosperity to rural America and stabilize our family farm system of agriculture.

To: Interested parties

From: Tom Harkin

Re: Food costs under the Family Farm Act

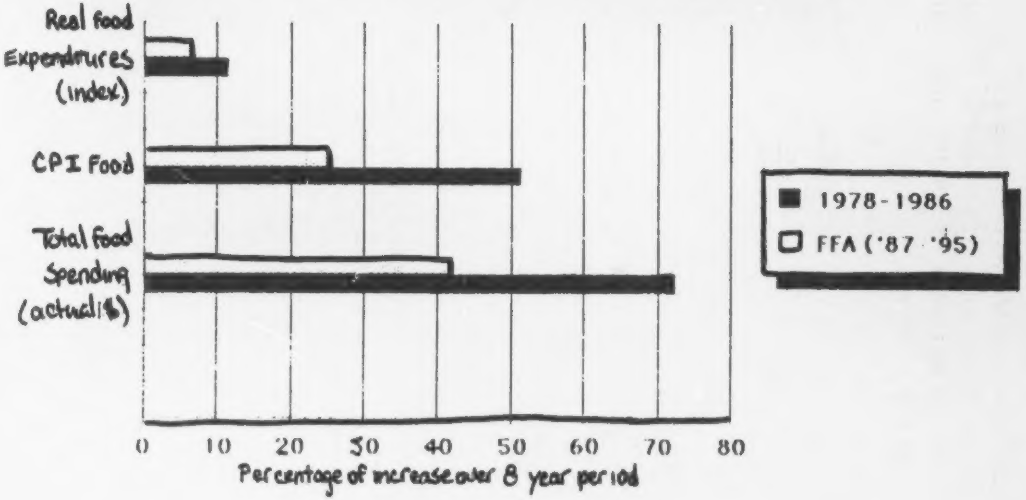
Some who oppose the Family Farm Act have been exaggerating the increase in the cost of food which would result because of the higher commodity prices received by the farmer under my bill.

I am enclosing some charts which may help to place this matter in the proper context. The first two charts compare the increase in the cost of food over the past eight years with the projected increase if the Family Farm Act were adopted, over the next eight years. The increases projected are far less than those which occurred over the recent past.

The third chart shows the percentage of personal disposable income which Americans have spent on food over the past few years, and projections for expenditures over the next few years under the current program and under the Family Farm Act. Under either program we will continue to spend less and less of our disposable income on food.

In summary, the average yearly increase in the cost of food under the Family Farm Act, and over and above the cost increases which would occur under the current program, is only 1.6% per year over the next nine years. To accommodate the impact of this minimal increase on the poor and the near poor, the Family Farm Act includes indexing any food cost increase for the programs that assist the economic disadvantaged, and provisions which incorporate the Kennedy/Panetta Hunger Relief Act to further increase food and nutrition allotments.

Percentage of actual increases during past eight years ('78-'86) compared to increases during the next eight years ('87-'95) under the Harkin/Gephardt "Family Farm Act of 1987" (as projected by FAPRI):

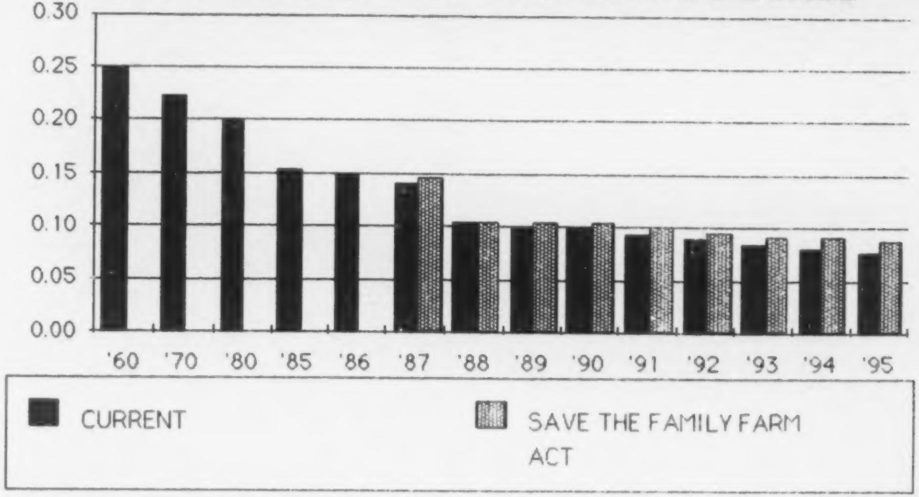


Comparison of increases during the next 8 yrs. under the Harkin /Gephardt "FAMILY FARM ACT OF 1987" to increases during the past eight years:

	1978-1986 (actual increase)	1987-1995 Family Farm Act (FAPRI projection)
Total food spending (actual $s)	+ 72.3%	+ 41.3%
C.P.I. Food	+ 51.2%	+ 24.8%
Real food expenditures (index)	+ 11.4%	+ 6.2%

SOURCES: FAPRI and the Economic Report of the President 1987

FOOD COSTS AS PERCENT OF PERSONAL CONSUMPTION EXPENDITURES



SOURCES: WHARTON ECONOMETRIC FORECASTING ASSOCIATES, LONG-TERM FORECAST AND WORLD ECONOMIC OUTLOOK, OCTOBER 1986

PERSONAL CONSUMPTION EXPENDITURES = DURABLE GOODS, NON-DURABLE GOODS, AND SERVICES

GNP = PERSONAL CONSUMPTION EXPENDITURES, GROSS PRIVATE DOMESTIC INVESTMENT, NET EXPORTS, AND GOVERNMENT PURCHASES

Senator **Melcher**. Thank you, Tom, for an eloquent and detailed statement.

Senator Daschle.

Senator **Daschle**. I have no questions, Mr. Chairman.

I, too, commend Tom for his leadership in this area. I think that the real essence of what you are saying is on that chart on expenditures. Food prices go up, farmers get less. That is the final product of the farm policy that we have created with the farm bill of 1985.

There is no way, given current circumstances with those lines, that we will see anything but the complete demise of agriculture in our lifetime and a complete turnabout in the way this country produces food. We do not want that. I am convinced this President does not want that, but that is exactly what has happened, and I applaud you for your eloquence and your willingness to consider options and for the leadership you have demonstrated with the Harkin bill.

Senator **Harkin**. Thank you.

Senator **Melcher**. Senator Boschwitz.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator **Boschwitz**. Thank you, Mr. Chairman.

Doggone it, I thought——

Senator **Harkin**. Here it comes.

Senator **Boschwitz**. I thought I was going to come here and listen to Willie Nelson sing. Instead, I am listening to the Senator from Iowa whose song I have heard before. [Laughter.]

And I trust we will soon turn to Willie because, you know, I enjoy him.

Mr. Chairman, the Senator from Iowa and I, in the best of mood and best of content, disagree, and do so firmly and with principle.

Recently, the Iowa State University conducted a survey down among Iowa farmers. The survey was conducted in April, as you undoubtedly know.

Senator **Harkin**. Do you have a copy for me? Is this the Extension survey?

Senator **Boschwitz**. That is it. It was done by a fellow by the name of Mark Edelman of the Agriculture and Public Policy Department—he is an agriculture and public policy economist. He surveyed 5,000 farmers in Iowa, and it is very interesting to see what the response was.

The question was: What should the future direction of U.S. farm policy be? And the respondents were given three choices. The first choice: Should we continue the present farm bill? In responding, 58 percent said, yes, we should; 27 percent were not sure; 15 percent disagreed.

Then the decoupling program that I have sponsored was considered. The question was asked: Should we move to a more market-oriented policy by decoupling payments and phasing down income supports for a period of years? And 40 percent agreed with that; 37 percent were not sure. That really is a reflection of the fact I have not done enough proselytizing. And 23 percent disagreed.

Then the approach of my friend from Iowa, Senator Harkin, was questioned. It, of course, has received far broader attention in Iowa, as it should, than my approach. Should we implement higher price supports and mandatory production controls if they are approved by the farmer referendum? In responding, 23 percent agreed with that; 26 percent said not sure; 51 percent disagreed with that. So, it is interesting to note that the idea of decoupling and phasing down income supports for a period of years and allowing the market to work—and I know that my friend from Iowa says that the free market only allows the farmer to go broke—is more accepted than his approach. I respectfully disagree with my friend from Iowa. I see my friend from Minnesota is here as well, and respectfully disagree with him, as I have on more than one occasion. It is interesting to note that the decoupling idea had nearly twice as many Iowa farmers agreeing with that as agreed with the idea of mandatory production controls and higher price supports approved in a farmer referendum.

Perhaps more significant is, that despite the cries of criticism with respect to the present farm bill, it received the best report of all.

Senator HARKIN. Rudy, can I interrupt just a second? I do not have this data with me, but I have another survey. Are you sure yours is the same one that was done by the Extension Service? I am not certain that it is. Iowa State University Extension Service did a survey of farmers in Iowa, and I remember the figures on my bill were 47 to 39; 47 percent disagreed and 39 percent agreed. In fact, they pointed out in the study that mine was the idea where there were the fewest unsures. I'm sure it was 47 to 39.

Senator BOSCHWITZ. The one I have before me, Senator, is from April, and I must say it is not dated, other than that it says on the top, Iowa State University of Science and Technology and so forth. Mandatory production controls and higher support prices, if approved by a farmer referendum, 23 percent agreed, 51 percent disagreed, and 26 percent were not sure.

Senator HARKIN. I must have another survey that was done in Iowa.

Senator BOSCHWITZ. That is the problem with surveys. I agree with that. And when you take 5,000 farmers in the State of Iowa, that is a pretty good survey.

Senator HARKIN. It is a pretty good survey.

Senator BOSCHWITZ. When Gallup takes a national poll, they take 1,200.

Senator HARKIN. I will get my survey, and we will compare them.

Senator MELCHER. Senator Daschle.

Senator DASCHLE. Do you recall the last survey by the Department of Agriculture on the referendum? What were the percentages there?

Senator BOSCHWITZ. As I recall, 61 percent of the wheat farmers who responded—is that right?—were in favor of the referendum.

Senator HARKIN. Could I interrupt and ask to enter this? I ask you as a friend, why don't we have a vote? Let us have a referendum. If this is what it is, let us have a vote.

Senator Boschwitz. A vote did occur. It occurred for both of us in 1985. I think you made your attitude quite clear, and so did I. That vote has occurred and I think we are here to reflect and also to discuss and to work over the various options.

Let me also point out the responses were divided into four financial categories. Farmers were grouped as strong, stable, weak, and in severe financial condition. Interestingly, in each one of those categories, the decoupling idea received more support than my friend from Iowa's idea. Certainly not by the same high percentage in the very weak financial condition, but still even more in that group wanted to begin a reliance on the marketplace than wanted to try to make the Government the ultimate controller of agriculture, which I think really is not in the interests of the farmers.

I do believe, Mr. Chairman, and I say this to my friend from Iowa, that agriculture did do better in 1986 than it did in 1985. Certainly we had some good hog prices. That helped our hog farmers very much. The chicken and egg guys did pretty well. The turkey guys did pretty well. Beef prices are up in the 70's, at least they were a week or two ago, and that does not mean that all is well on the farm. If you had crops, it is still a difficult year and, yes, the Government is too involved.

Interestingly, the farmers who relied the least on Government had the best last year. The market seems to have worked for them.

So I continue to feel that there should be a decoupling of planting from payments. I know that you disagree and I know that we will argue about that some more and I know we will present some statistics that seem to be contrasting and polls that will be contrasting. Yet I think that the marketplace can perform because those farmers who have not been under Government programs have, indeed, done better in 1986 in general than those who have been the beneficiaries of farm programs. I can well believe that when loan rates are so low and targets are so high that the banker said to the lady, you had better get into the farm program if you expect to have some kind of help from us.

But listen, that occurred before. Bankers have been telling farmers what to do for a long time, and it depends on who has the leverage and whether or not the farmer reacts—the same as any business.

Do you have any sense as to how many of these bankruptcies occurred in agriculture and how many occurred in other areas? Are they all farmers? Clearly they are not, and while you determine what the answer is, clearly a lot of people—you have an answer?

Senator Harkin. My staff told me 30 percent of them were full-time farmers.

Senator Boschwitz. About——

Senator Harkin. I did not mean to mislead you. Those figures represent all bankruptcies in Iowa—small businesses, personal bankruptcies, the whole thing.

Senator Boschwitz. I understood that, and about 30 percent of them, you say, are farmers?

Senator Harkin. About 30 percent are full-time farm~~ers. I~~ did not want to leave the record unclear. Over two-thirds of them are not farmers for whom there is no help at all, other than the processes of the bankruptcy court.

Senator **Boschwitz**. We are both really trying, as the Senator knows, to help agriculture. The way we go about it is different and our views are different. But it is interesting to me that the survey taken of Iowa farmers shows that the idea of returning to the marketplace is more popular even among those who are under the greatest stress.

Thank you, Mr. Chairman.

Senator **Harkin**. If I might respond, I just want to say to my friend from Minnesota that it is amazing how many times I read articles that he has written and I agree with the first paragraph and with the second paragraph. In fact, I agree until I get to the bottom line.

I just want to say this, Senator Boschwitz, you have really done a great job in flushing out a lot of data and evidential material. In fact, a lot of what you say, for example, that we cannot sustain these huge Government payments, I really agree with. But, I respectfully say where we part is at the bottom line as to what the solution is.

Senator **Boschwitz**. If I may conclude, Mr. Chairman, numbers will support almost any position that you want. So perhaps we should listen to the farmers as you suggest and listen to them when they say they would like to return to the free market, but they like the 1985 farm bill better. There have been some better times lately, and farmland prices are a little better in Minnesota. They may have gone down in Iowa. I am more bullish, more optimistic than I was before.

Senator **Harkin**. I want to check the figures on the poll because I had a poll from the Extension Service that was different than that.

Senator **Boschwitz**. Thank you.

Senator **Melcher**. Senator Heflin.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator **Heflin**. Mr. Chairman, I do want to make an opening statement, and I will combine a question or two with an opening statement.

I want to commend you for your diligent work in holding these hearings on this issue of farm programs and assistance. I am certainly delighted we have got some outstanding witnesses, and I do not want to take time from them.

But I do say agriculture from my section of the country—that is, from the South—and the present farm program, I have to say, is a mixed bag. We did an innovative thing pertaining to cotton and adopted the marketing loan. There were options that were given to the Secretary of Agriculture. He did not take the pure marketing loan, and I believe that the program would have been even better if he had taken the pure marketing loan. Rather, he took one that calls for large payments to certain first handlers and certain transition payments that were made, and he exercises discretion in that regard. But the marketing loan aspect of the cotton program has worked, and as a result, cotton farmers like it and we have had an improvement in the cotton economy as a result of the marketing loan.

As the chairman knows, he and I and others endeavored to put the marketing loan in for other commodities, but we ran into serious opposition, particularly from the administration relative to other commodities.

The peanut program in Alabama is working. It does not cost the Government any money, and the farmers are pleased with it. On the other hand, the mixed bag is the soybean farmers are suffering terribly. Of course, there has been a recent improvement in the price of soybeans, but there has been a substantial reduction, people going away from soybeans, no longer planting them; and in my judgment, we ought to have a much better program that would deal with soybeans.

We are also a feed grain producing area, and we can see the need for reviewing of these programs. The feed grain programs have not been successful in increasing farm income and decreasing Government cost. This is definitely a problem. We have other agricultural phases of our commodities, of our farm program, poultry and cattle. In cattle, it varies. Also going on at this time is the trade bill. Hopefully the trade bill will focus on agricultural needs. Unfortunately, we have so many people today that want to buy agricultural products because they are marked imported, they think there is something sophisticated about eating something that has the word "imported" on it—imported butter, imported cheese, or drinking imported wines, all of these sorts of things.

I may offer an amendment to the trade bill where those people that use the word "imported" to gain sales for the last 5 years, instead of the word "imported," they would be required to put the word "un-American." [Laughter.]

But we also have a serious problem in the farm credit area, and this continues to be a problem. So we have got a lot of problems in agriculture.

I think the chairman's approach to trying to improve exports has helped some, but it is in the way it is administered and the way it is carried out, and they have a lot of discretion relative to that. So we have in my section of the country a mixed bag on it.

But there is no question that wheat, feed grains, soybeans particularly need some form of help and relief to get over this farm crisis and out of this farm credit crunch that they are in. I am not saying what is the actual solution. Actually, my feeling is the market alone, causing it to work, would be. Nevertheless, I think we ought to approach these things in a way with an open mind and endeavor to try to find a solution for our problems, not only on a short-range basis but a long-range basis.

I am willing to listen to any and all proposals and suggestions, and we appreciate Senator Harkin coming forward with his, Senator Boschwitz coming forward with his ideas. So I feel like that we need to do it. I think there are certain commodities that we ought not to tamper with if we reopen the farm bill because they are working and the program is proving successful. The exports in cotton have substantially increased. It is also true in the peanut program. So those programs are working. But for the others, there is a great need for some form of relief.

Now, for my question. Do you know, Senator Harkin, whether this Dr. Mark Edelman, who is the agricultural and public policy economist for Iowa State, whether he is a Republican? [Laughter.]

Senator **Harkin**. I do not even know the man. I do not know.

Senator **Heflin**. That is all I have.

Senator **Melcher**. Senator Bond.

Senator **Bond**. Tom, I am very interested in the charts you put up with the assumptions because we are very proud to share FAPRI with Iowa and particularly with Iowa State. I thought for the record I would ask which assumptions that you based your charts on, because in the FAPRI study it says for the Harkin-Gephardt proposal the critical assumption is the market sharing cartel among the exporting countries. For the exporting cartel to be effective, all exporters would have to agree to sell their products at prices consistent with the U.S. loan price, or an agreed upon price, and they would also have to agree to maintain market shares at the 1986 levels.

You and I have seen what happened to OPEC with their cartel. The boys started cheating on one another, and there are a lot more countries that can produce grain than produce oil. You yourself, I think, quite properly said we had the dickens of a time trying to get the European Community and others to go along with our efforts to go back to the free market and get them to agree to stop their unfair trade practices.

So based on that, based on those observations, the FAPRI study goes on to say there is serious doubt by many analysts that it will be possible to organize and enforce the cartel. If the cartel assumption is removed, there would be two alternatives for the United States. One is to have no export enhancement policy, in which case U.S. exports would drop at least twice as rapidly as they do under the cartel assumption and eventually perhaps disappear, and based on your charts of costs, I assume you would go with no Government export subsidies. So we would lose exports. We would lose the 40 percent of the farm production that now goes into exports.

The second alternative—and you show increasing exports—they say is to employ a two-price system and subsidize exports. Estimated costs of the export subsidy exceed those of the Farm Security Act of 1985, reaching about $26 billion by fiscal year 1995–96. These rising costs are due to the difference between parity based on domestic price and the world price that rises with time and due to the level of exports that are also rising. In other words, it is either one or the other. You cannot have declining farm program costs under the assumption in your bill without losing the export markets. If you keep the export markets, then you are going to have to provide subsidies in such an amount they would cost more than even the current farm program costs which are, of course, as we know, designed to be phased out as we get rid of subsidization, cartels and barriers to supports in the international market. This has been the goal that this Agriculture Committee has sought in developing the agriculture section of the trade bill.

So you would assume, though, no subsidies for exports; is that correct?

Senator **Harkin**. That is correct. If you let me expound a little bit, I am assuming on the FAPRI study that we do reach some agreements with the European nations. If you read the Harkin-Gephardt bill, there is a provision that says we mandate that the President forthwith begin negotiations with our trading partners to reach certain agreements. If after ample time these agreements are not forthcoming, the President will be empowered to use PIK or anything else to remain a player in the export market. So, it is this sort of carrot and stick approach, the carrot being that we are willing to sit down with our trading partners in order that we do not continue in this process of predatory pricing, and that they will increase their incomes also by more fairly pricing commodities. The stick is if they do not agree, we are going in there with PIK and buy it right now.

So, that is provided for in our bill. The assumptions I made on this are basically the FAPRI assumptions that we do, in fact, reach those agreements.

Let me just point this out. As I said, I met with a lot of European experts over there, and they are ready to talk. I just met with Lord [Baron] Plumb, who is the President of the European Parliament and a British farmer. He says that is the way we have got to go. He thinks people are ready to move in that direction.

I might also point out that, in 1983 the European Community unilaterally, on their own, agreed, to keep their share of the world wheat market at 14 percent. They unilaterally agreed to do that. They kept the policy about a year, but, since no one else would go along with them, they dispensed with it. Now I think they are up to about 17 percent. That indicated as long ago as 1983 they were willing to enter into those kinds of agreements. We were the ones not willing. So, I think there is a desire among a lot of other countries to engage in this kind of a deal.

Senator BOND. I have been talking to different Lords than you. I talked to Lord Belstead, the Minister of State for Agriculture in the United Kingdom. He was strongly for going the other direction.

Senator HARKIN. I think, again, we have to sit down with our trading partners in these other countries and see what the consensus of opinion is. I am sure you can always find one person one way or the other. I understand that. But let us see what their official government ministers would be willing to do with us in terms of negotiating. That is all I say. If they are not, they are not. But at least I think we ought to try.

Senator BOND. Thank you, Mr. Chairman.

Senator MELCHER. Thank you very much, Senator.

Senator HARKIN. Mr. Chairman, let me again thank you very much for holding these hearings, and let me also commend you on your years and years of dedicated service to American agriculture and the family farmer. I have been on your side in a lot of battles, and I will tell you it is much better to be on John Melcher's side than to be on the other side. I want to continue to fight with you for the family farmer.

Mr. Chairman, I just want to take the opportunity to introduce to the panel Willie Nelson and John Cougar Mellencamp to talk about Farm Aid, what they have done for farmers, and what they see out there in farmland.

Mr. Chairman, let me say this on behalf of Iowa's farmers: if it were not for Farm Aid in Iowa last year, I can honestly say that we would have had more suicides, more family breakups, and much more hardship than we did. My staff, on countless occasions, turned to Farm Aid for the immediate help they needed to help farm families that were in extremely serious situations—the ones that really needed help at that time—legal help, help getting food, support, direction and guidance. It was just something that was amazing.

Farm Aid has netted over $8 million, and they have distributed $6.5 million to family support organizations in 40 States. I feel what these entertainers have done, in drawing attention to the farm crisis and in really helping, is something we are all grateful for.

I suppose, when you are an entertainer, it is easy to be involved in your own little world, but these two individuals have gone beyond their own world of entertainment to take up the cause of the family farmer and people in rural areas who are really hurting. I feel they deserve our thanks for what they have done for the family farmers.

Senator **MELCHER**. Thank you.

The subcommittee, indeed, does welcome as our next witnesses Willie Nelson and John Cougar Mellencamp. We are anxious to hear from you.

Senator **BOSCHWITZ**. Mr. Chairman, I have to leave for the conference on the budget that is going on upstairs. I am a conferee on that as well.

I too would like to welcome these gentlemen to the subcommittee. I thought Willie was going to perform a little bit, and I hope he does before the subcommittee hearing ends.

I would point out, Willie, the marketplace has been pretty good to you in your endeavors, and just as the marketplace works in entertainment, I would suggest that the marketplace will work in other areas, other avenues as well.

Mr. Chairman, I ask unanimous consent that the statement by Senator Wilson be placed in the record.

Senator **MELCHER**. Without objection, so ordered.

[The prepared statement of Senator Wilson follows:]

Pete Wilson

STATEMENT BY THE HONORABLE PETE WILSON BEFORE THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION & FORESTRY SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

THURSDAY, JUNE 18, 1987

MR. CHAIRMAN AND FELLOW SUBCOMMITTEE MEMBERS, ON THIS DAY IN 1787, ALEXANDER HAMILTON PROPOSED HIS VISION OF A SUPREME CENTRAL GOVERNMENT. MUCH DEBATE SURROUNDED THIS PROPOSAL AND OTHERS TO DETERMINE THE ROLE THE FEDERAL GOVERNMENT SHOULD PLAY IN OUR NATIONAL AFFAIRS. THERE ARE STRIKING SIMILARITIES BETWEEN THAT DEBATE AND THE DISCUSSIONS THAT TAKE PLACE ON THIS COMMITTEE REGARDING THE ROLE GOVERNMENT SHOULD PLAY IN AMERICAN AGRICULTURE.

THE "FAMILY FARM ACT," STEERS U.S. AGRICULTURE AWAY FROM THE MARKET AND BACK TO THE PROVERBIAL SNOW WHITE'S APPLE. WHILE SNOW WHITE GOT HER PRINCE, UNDER THIS TYPE OF POLICY, AMERICAN AGRICULTURE WOULD BE THE PAUPER.

S. 658 PROPOSES TO REPLACE CURRENT POLICY WITH HIGH PARITY-BASED LOAN RATES, MANDATORY PRODUCTION CONTROLS, ACREAGE ALLOTMENTS, MARKETING CERTIFICATES, AND EXPLICIT ACROSS-THE-BOARD EXPORT SUBSIDIES. S. 658 WOULD AFFECT ALL THE MAJOR PROGRAM CROPS, AS WELL AS RYE, SOYBEANS AND MILK FOR THE 1988 THROUGH 2000 CROP YEARS.

AS AN ADVOCATE OF "MARKET-ORIENTED POLICY, I SUPPORT AN AGRICULTURAL PROGRAM THAT SETS GOVERNMENT LAON RATES AND TARGET PRICES AT LEVELS THAT REFLECT WORLD MARKET REALITIES. THE ARTIFICIALLY HIGH RATES OF THE EARLY 1980S, WHICH WERE SET BY STATUTORY FORMULAS INSTEAD OF MARKETPLACE REALITIES, LED TO PREDICTABLE PRICE UNDERCUTTING BY OUR INTERNATIONAL COMPETITORS, RESULTING IN THE LOSS OF FOREIGN MARKETS AND THE COSTLY EXPANSION OF GOVERNMENT-HELD INVENTORIES.

THE AGRICULTURAL POLICY PROPOSED BY S. 658 CALLS FOR MANDATORY PRODUCTION CONTROLS. UNFORTUNATELY, NOT ONLY DOES THIS TYPE OF POLICY INCREASE THE PER UNIT COST OF AMERICAN FARM PRODUCTS AND REDUCE OUR ECONOMIES OF SCALE, BUT THEY SERVE AS AN INCENTIVE FOR FARMERS ABROAD TO INCREASE THEIR OWN PLANTINGS AND PROVIDE ADDITIONAL COMPETITION FOR U.S. AGRICULTURAL EXPORTS. THE DISPLACEMENT EFFECT OF THIS APPROACH IS EVIDENCED BY THE PLIGHT OF OUR FARM EXPORTS UNDER THE POLICIES OF THE 1981 FARM BILL. THESE EXPORTS HAVE PLUMMETED FROM A HIGH OF $44 BILLION IN 1981 TO BARELY $27 BILLION IN THE CURRENT YEAR.

IN SHORT, HISTORY HAS SHOWN US THAT MASSIVE ACREAGE CUTBACKS AND PRICE MANAGEMENT HAVE NOT ONLY DAMAGED U.S. AGRICULTURAL EXPORTS, BUT HAVE ALSO RESULTED IN A LOSS OF FARM INCOME AND AMERICAN JOBS. INDEED, LONG TERM PROSPERITY CANNOT EXIST WHERE ENTREPRENEURIAL INITIATIVE AND PRODUCTION EFFICIENCY IS STIFLED BY GOVERNMENT MANIPULATION OF PRODUCTION, MARKETING, AND PRICE.

IN FACT, THE DEPARTMENT OF AGRICULTURE ESTIMATED THAT MANDATORY RESTRICTION OF PRODUCTION SUFFICIENT TO RAISE FARM PRICES TO EIGHTY PERCENT OF PARITY WOULD RESULT IN A SUBSTANTIAL LOSS OF FARM RELATED INCOME, CLOSE TO $70 BILLION. FURTHER, THERE WOULD BE UNDOUBTEDLY A CORRESPONDING LOSS OF AMERICAN JOBS. THE LATEST FIGURES SHOW THAT OVER 500,000 JOBS WOULD BE ELIMINATED IN THE FARM PRODUCTION SECTOR AND ANOTHER 1.5 MILLION AMERICAN JOBS IN OTHER PRODUCTION SECTORS.

IN ADDITION, IF THE FAMILY FARM ACT WERE ENACTED, CONSUMERS WOULD SUFFER, THE LIVESTOCK SECTOR WOULD BE SEVERELY IMPACTED, AND EXPORTS WOULD VIRTUALLY DISAPPEAR. WHILE I DON'T DOUBT THE GOOD INTENTIONS OF MY COLLEAGUES IN SUPPORT OF A MANDATORY PRODUCTION CONTROL POLICY, THE FUTURE OF AMERICAN AGRICULTURE LIES WITHIN A MARKET-ORIENTED APPROACH TO OUR FARM PROBLEMS. THE 1985 FARM BILL WAS A POSITIVE STEP IN THIS DIRECTION, AND I BELIEVE THAT WE SHOULD GIVE THIS LAW AN OPPORTUNITY TO WORK BEFORE WE CONSIDER ANY MAJOR REVISIONS OF OUR FARM POLICY.

AS THE OUR LATE COLLEAGUE SENATOR ZORINSKY SAID BEFORE THIS COMMITTEE, "WE CAN'T CONTINUE TO CHANGE THE RULES ON OUR FARMERS EACH YEAR. WE SHOULD GIVE THE 1985 FARM BILL AN OPPORTUNITY TO WORK. WE OWE IT TO AMERICAN AGRICULTURE." I THINK THAT THOSE ARE WORDS OF WISDOM, MR. CHAIRMAN.

THANK YOU.

Senator **Melcher**. Please proceed, Willie.

STATEMENT OF WILLIE NELSON, SINGER AND FARM ACTIVIST, SPICEWOOD, TX

Mr. **Nelson**. Thank you very much.

This is the second time I have been here. I was here 2 years ago, and I have been listening to the surveys on both sides. And this group says this and this group says that. But in the last 2 years I visited approximately 400 cities, around 200 a year, and in every one of those cities, the people who have come up to me during and after the show, before the show, have told me the farm crisis is worsening, it is not getting better—100 percent of these people have said that.

The people who have come up to me don't say you can relax, Will, everything is fine. They say, "What are we going to do now? I lost my farm."

In my State of Texas this last year, 14,000 full-time farmers went out of business, and it's getting worse. It will happen again next year unless something is done.

So my question is: How long does it take to make a move? How long does it take to get something done? It has been 2 years now, and I can't see anything being any better. In fact, I see it getting worse.

My friend, John Mellencamp, travels around over the country. He also lives in a farm community. He has some stories that he has heard over the last 2 years. There is none of them happy. Something is not working.

We are not here to get behind any one farm bill. That's not what we are here for. I am not a farm policy expert. I am just saying the people out there, the farmers in this country are dropping out, dropping like flies, and something has to be done to save them. And you guys are the smart guys. You tell me how it can be done, and you tell them how it can be done, because they need to know.

STATEMENT OF JOHN COUGAR MELLENCAMP, SINGER AND FARM ACTIVIST, SEYMOUR, IN

Mr. **Mellencamp**. I am John Mellencamp. I live in Seymour, Indiana, where I was born, population of 10,000 people. I lived in Bloomington. I am an entertainer playing rock music, and Willie asked me about 2 or 3 years ago, to be involved in the Farm Aid, because of my input.

I live amongst the people, and what I started noticing myself is that, in the town I grew up in, there used to be a John Deere dealership. He is no longer there. I wonder where he went.

This farm crisis seems to be on a slow burn, and I hear you guys talk about foreign exports and why it is necessary that goes up, and then Mr. Harkin shows us that we are getting less money and less exports.

It seems to me that a lot of these problems are being kind of approached from the rear end forward in that if these people that are losing their farms are indeed bad managers, then they should lose their farms. But I hear too many people telling me that is not the case.

With this low price—I am not a farm expert either—but the crops that seem to be suffering are corn, soybeans, and isn't that kind of a political football? We used to trade with these foreign countries, the ones where the governments are the most involved. They are the ones we seem to be losing out on the most.

I am living in South Carolina this summer, and I see your farm people down South and, you know, when I say farmers, when people make these sweeping statements of farmers, who are they talking about? They are talking about the guy who owns 6,000 tractors in one State, farms millions of acres. Of course, that guy is doing good. Of course he is doing all right. But down where you are at, people don't know what poor people are like until they go down there. It's shocking. It's this Nation's embarrassment, and these black farmers, they haven't got a chance.

When I am out on tour and I am talking to people, they are afraid of the future and their vision of the future is that what is going to happen to my children in 20 years when, all of a sudden, three farmers are farming the State of Indiana and they also own all of the food processing plants and they own all that kind of stuff. We are going to be in a tight fix. We are going to have no way to control anything.

So more than the farmer going out of business like I said, if the guy is a bad manager, he is just like Willie and I. If you are a bad entertainer, you go out of the business, and if you lose the people, you will be out of the business.

That's the reason I was interested in the farmers. The money we raised is nothing. It seems funny and peculiar that, after my shows and after Willie's shows, people come up to us. We are singing with bands. We are singers. Why are they coming to us to ask for our advice? It is because they have got nobody to turn to. They feel like this guy is our friend and he is going to try to help us.

I have had people call and wanted me to loan them money, guys your age, not my age, guys that have lived in Indiana for 30, 40 years, and have been farmers, call up my office, "Mr. Mellencamp, can you loan me * * *" And it's like what is this? You know, why now is so much importance put on the private sector? Why is it being passed on to us to be concerned with these people when, in reality, we voted for you guys to do what was morally right, and I think that is what the people of America expect.

That's all I have to say.

[The prepared joint statement and attachments of Mr. Nelson and Mr. Mellencamp follow:]

Joint statement of

Willie Nelson & John Cougar Mellencamp

submitted to

U.S. Senate Agriculture, Nutrition and Forestry Committee's Subcommittee on Agricultural Production and Stabilization of Prices

Thursday, June 18, 1987

Introduction

Mr. Chairman, members, Senator Harkin, we appreciate the invitation to appear here today to share some of our observations about the crisis in rural America

We're here as individuals. Our views are our own and we're not here to speak for any organization. We're not experts on farm policy. However, we've become somewhat acquainted with the impact our federal farm policies are having on the farmers and farm families who must live under them. We're in Washington to visit with you about what we see and hear is happening in rural America-- things that we've witnessed and learned, both from being on the road as performers and also, more recently, from our work with Farm Aid.

Contact with rural America as singers:

We've sung a concert or two over the last few years. And as you know, a big part of our audiences are rural Americans. After nearly every concert, we talk to folks, many of them farmers, and we can tell you that the first thing on their minds these days is the uncertainty of their future in rural America.

The country used to be the place to go if you wanted to live a quiet, stable life. Today, that stability is gone for many rural Americans. It has been replaced by fear and heartbreak, and the struggle to make sense of it all. We hear story after story of families losing their farms even though they've never missed a bank payment in their life. We know that making a farm cash flow is complicated, but it's pretty clear that something's just not right. Unless farmers get a fair price for their crops, they just can't make a go of it.

Contact with rural America through Farm Aid

It's not an easy thing to witness so much pain, or to see the decay of communities that are the bedrock of rural America. That's why we helped put together the first Farm Aid concert in Champaign, Illinois, almost two years ago. That concert and another one last year netted more than $8 million.

Since 1985, Farm Aid has been distributing this money to farm crisis hotlines, food pantries, legal training programs and counseling services in 39 states. Attached to our testimony today is a list of the organizations which Farm Aid has funded. We haven't been able to fund all of the many requests we've received, but this list will give you some idea of the magnitude of the problem in the countryside. These projects do not begin to meet the massive need that is out there. These organizations work on tight budgets to provide services and give support to rural Americans. Many of them operate with volunteer workers, often farmers themselves, who are helping other farmers deal with this crisis. And nearly every day, farmers call or write directly to us asking for help.

The continuing crisis:

We've still got a crisis on our hands. We're still losing hundreds of family farms a day. Rural businesses are closing. Schools and hospitals in rural areas are shutting down. A record number of agricultural banks are in financial trouble.

Let's look at the facts

ITEM: The FmHA, which provides credit to 12.5% of Americas's farmers, has served approximately 88,000 of its borrowers with notices of Intent to Take Adverse Action, threatening acceleration, liquidation, termination of income and foreclosure.

ITEM: The Farm Credit System, which holds 25.8% of the $175 billion farm debt, increased its aggressive policy of forced liquidation for troubled borrowers, with 9,203 accounts in foreclosure or bankruptcy in 1985, rising to 13,516 in 1986.

ITEM: Farm bankruptcies continue to increase significantly, which contributed to the recent decision by Congress to create 52 new bankruptcy judges and spurred a special $34 million appropriation in the Supplemental Budget to address the crisis in the farm states.

ITEM: At the end of 1984, their were 288 agricultural banks on the FDIC's list of "problem banks. By the end of last year, the number of ag banks on the list had more than doubled to 600.

ITEM: At the pace set during the first five months of this year, more agricultural banks will fail this year than in any year since 1933.

ITEM: Economists say that 31 states are in a recession.

ITEM: Total farm assets declined by another $60 billion last year.

ITEM: The Federal Reserve Bank of Kansas City says farmland values in their eight-state district averaged 14% lower in 1986 than in 1985.

ITEM: U.S. farmers have lost $350 billion in equity since 1980 and it's still falling.

ITEM: The overall debt-to-equity ratio of America's farmers has risen for six years in a row and now exceeds 33%. The percentage of "highly-leveraged farms"-- those with a debt-to-asset ratio greater than 40%-- has increased to 21%.

ITEM: According to an American Bankers Association survey, the percentage of farm borrowers whose financing would be discontinued during fiscal 1987 will be higher than in fiscal 1986.

ITEM: According to USDA's National Agricultural Statistics Service, the U.S. lost more than 165 farms a day in 1986. A similar survey by the American Bankers Association puts the number at 387 lost farms per day.

ITEM: The Congressional Office of Technology Assessment predicts that, without major changes in national farm policy, the U.S. will lose a million farms by the year 2000.

ITEM: Only 1.4% of American farmers are black, and they are losing their land at a rate of 9,600 acres each week. If current trends continue, there will be virtually no black farmers left in America by 1994.

ITEM: Bankers in the Kansas City Federal Reserve district report that (quote) "25% of rural non-farm businesses in their trading areas were having severe financial problems. (end quote)

ITEM: As farm families lose their land, more and more of it is being concentrated in the hands of insurance companies and other giant corporations. Nationally, insurance companies are estimated to own 3 million acres of farmland, valued at 2.3 billion dollars.

The human dimension

Those are the cold numbers, and they show the farm crisis remains as deep and as widespread as ever. But they tell only part of the story

We'd like you to hear a little bit of what we've been hearing from hotline workers around the country. Their reports tell us that the crisis is still as fierce as ever.

From a Missouri hotline:

"If we've turned any corners, it's to find the road blocked (by) the 1985 Farm Bill... our workload has increased in the first five months of 1987 compared to the same time period in 1986 (from 1400 phone calls to 1725)).... Likewise, there has been an increase in the number of farm families who had office appointments (from 156 in the first five months of 1986 to 231 in the same period of this year)...."

●

From a Nebraska hotline:

"The requests for assistance continue to arrive at an undiminished rate. However, in the past three months, I have noted a marked increase in the degree of severity of the situations outlined...."

●

From a Colorado hotline:

"We received the same number of calls in the first quarter of 1987 as we did during all of 1986. Today, the suicide rates are higher in rural Colorado than in our cities.... In a survey of Colorado's farmers and ranchers last year, 50% did not expect to be in agriculture in the next five years."

●

In Indiana:

"Recent headlines in many Indiana newspapers read, 'Indiana farm bankrupticies up 165% in the first quarter of 1987 over the first quarter of 1986.'"

From Oklahoma:

"A hotline in Oklahoma has received over 15,000 calls in its first 20 months of operation. In 1987, the calls have been increasing at a rate of 100 additional calls each month!"

●

From the South:

"In Georgia, Alabama, Mississippi and South Carolina, requests for emergency support and assistance with Chapter 12 bankruptcies has increased 20%. The rate of land loss of black farmers has accelerated to more than 1,000 acres a day."

●

From an Iowa mental health center:

"There has been a 43% increase in the demand for all kinds of services in the first quarter of 1987 from the last quarter of 1986. The demand for emergency services is up 49% in the same time period."

●

And from a Kansas hotline:

"The number of calls are holding about the same. Foreclosures are not less at this time. The anger with people is deepening and the hope is gone. The feeling that we are doomed is everywhere until you can show them the action they can take.... I do not foresee any relief from the immediate crisis.... We are losing 68 farmers a week in Kansas. That is a lot of hurt, anger and lives to rebuild. That won't happen in a week or a decade."

Fair price is needed:

The one message we hear over and over from farmers everywhere is that they need a fair price for their products. It just makes plain common sense-- without a fair return for their products, no one can stay in business. You folks know that market prices don't even come close to covering the production costs of farmers, but most Americans aren't aware that prices are so low today that even the record level of subsidy payments don't cover the costs of a young or middle-aged farmer who doesn't yet have his land paid for.

Why should we ask farmers to work at a loss when any of us would call the next guy crazy for doing that? These farmers don't expect to be guaranteed a huge profit, but they certainly don't deserve a guaranteed loss. They'd just like the chance to cover their production costs and have a little left over to survive-- just like anyone else!

The USDA tells us that family farmers are the most efficient food producers we've got. No one can produce food more cheaply than family farmers who put in sixteen-hour days without overtime, working alongside their children, in-laws, or neighbors to get the job done.

Lights out in rural America?

We drive across America almost every day, spending time in many small rural towns. At night, the lights from these towns seem to shine hundreds of miles across the land. We can't let the day come when those lights are turned out forever?

Are we writing off rural America?

We're also concerned that some people have decided to write off rural America... to simply allow our family farm system to be dismantled. Some seem to think the way to put this rural crisis behind us is to speed up the process rather than doing what's needed to solve it.

We appeal to you as our elected officials not to let that happen. You have the power to make the changes necessary to turn things around.

Farmers need your help now.

We hear from some that there's no pressure in Washington to do anything until after next year's Presidential election. In fact, by the time a new farm policy can be enacted and put into place in 1989, some estimate we'd lose another 120,000 family farms-- that's 20%-- and hundreds of rural communities that have somehow survived so far would go into a slide they'd never recover from.

Please. Move quickly-- this summer!-- to start rural America on the road back to the stable, secure, healthy place that we all need it to be. Please act while we still have family farms and rural communities left in America.

Thank you.

FARM AID
Keep America Growing!
21 Erie St., Room 20
Cambridge, MA 02139
(617) 354-2922

OVERVIEW OF FARM AID FUNDED ORGANIZATIONS

April 1, 1987

AZ Arizona Ecumenical Council — Emergency food & needs
1226 W. Osborn
Phoenix, AZ 85013
Eliza Carney, Sec.
(602)279-8228

From March to October 1986, the council distributed funds to 11 food banks throughout Arizona, which in turn helped 102 families and 391 individuals.

CA California Assoc. of Family Farmers — Emergency food & needs
P.O. Box 363
Davis, CA 95617
Tom Haller
(916)756-7420

The association gave food assistance to 90 families in the Central Valley, Fresno, Stockton, and Northern Sacramento Valley areas from August 1986 to December 1986, and continues to distribute food.

CO Western Colorado Congress — Crisis prevention and outreach
P.O. Box 472
Montrose, CO 81402
Kevin Williams, Staff Dir.
(303)249-1978

With the funds provided, the Congress is conducting up to 5 house meetings per month throughout western Colorado, which educate farmers on the nature of the crisis and help them best respond. Since May 1986, the Congress has held 4 educational meetings on farm policy with 25-75 attending each. Their 1986 annual meeting, which included panel discussions about farm issues, was attended by over 100 people. WCC also issues a monthly newsletter which reaches over 1,000 people, mostly in Colorado.

CO Foundation for Ag. Education & Development, Women Involved in Farm Economics — Crisis Prevention & Outreach Education
Rte. 1, #1892 County Road 53
Sterling, CO 80751
Naioma Benson, Nat'l. Pres.
(303)521-0296

WIFE.(cont.)

With the money provided, WIFE plans to carry out a public information media tour during the congressional debate on federal farm policy. They will hold press conferences, appear on talk shows, and give interviews for television, radio and newspaper, reaching an estimated 4.4 million households in the cities of Detroit, Washington D.C., and Pittsburgh.

GA	Federation of Southern Cooperatives/Land Assistance Fund 100 Edgewood Ave. NE, Suite 1228 Atlanta, GA 30303 Ralph Paige, Ex. Dir. or John Zippert, Dir. Program Operations (800)547-1986 (GA) or (800)358-0488 (Southwide)	Emergency food & needs Crisis prevention & outreach Hotline Self-help

The Federation operates five field offices in the ten-state area of Alabama, Arkansas, Georgia, Florida, Louisiana, Kentucky, Mississippi, N. Carolina, S. Carolina, and Tennessee. Their hotline has provided financial and legal advice, as well as referrals, to an average of 300 callers per month since November 1985. Since July 1985, the Federation has conducted an average of 16 workshops per month throughouth the South, on topics ranging from financial counseling to information on alternative crops, have been conducted throughout the South, averaging 25 attendees each. They have provided emergency relief to 528 families Southwide.

ID	Idaho Family Farm Assistance c/o ID Office of the Governor 2270 Old Penitentiary Rd., Box 790 Boise, ID 83712 Dan Christian, Rick Phillips (208)334-3240 (800)257-3276 (ID only)	Hotline

Since February 1986, the hotline has received approximately 3,000 calls from throughout Idaho. The staff furnishes referrals to lawyers, Ag. Consultants, job search and retraining agencies, emotional/family counselors and public assistance agencies.

IL	Illinois Farm Alliance 100 N. Main Street Edwardsville, IL 62025 Larry Gallagher (618)656-8922	Hotline Crisis prevention & outreach Education

Illinois Farm Alliance (cont.)

Since October 1985 the Hotline has provided referrals to 300 callers who needed legal and financial assistance. The outreach project has sponsored 3-5 meetings per month about the farm crisis since 1985.

IL	Illinois South Project 116 1/2 W. Cherry Herrin, IL 62948 Susan Denzer (618)942-6613	Emergency food & needs Crisis prevention & outreach Hotline

Since October 1985, the Project has distributed funds for emergency needs to about 225 families throughout Illinois. The hotline has received 400 calls since September 1985, with requests for emotional support, credit information, legal & financial referrals, and contacts with farmer advocates. Since December 1985, the Project has held nine training sessions for farm advocates in Illinois.

IN	Indiana Council of Churches 1100 W. 42nd Street Indianapolis, IN 46208 Barton Hunter, (317)923-3674	Emergency food & needs

Since January 1986, the Council has distributed funds for holiday needs, emergency food, clothing, utility and medical needs to 65 families throughout the state of Indiana.

IN	Indiana Rural Crisis Hotline 1854 West Grave Road Centerville, IN 47330 Susan Bright, Chair (317)855-2265	Hotline

The crisis hotline, which receives over 140 calls/month from all over Indiana, gives information and referrals on legal, financial and credit matters. In the past 11 months, professionals have conducted six seminars on legal, credit, financial and legislative information, with attendance ranging from 11-110 per meeting. Their newsletter has a circulation of 500.

IA	Iowa Citizen Action Network 805 1/2 Locust St., Ste.212 Des Moines, Iowa 50309 Mike Lux (515)244-9311	Crisis Prevention & Outreach

Iowa Citizen Action Network (cont.)

The Network has focused its energies on building coalitions between urban and rural citizens. They held a Solidarity day for farmers and union members, followed by an 18,000-piece mailling. Since March 1986, they have held 10 meetings for rural and urban people, and 30 speaking engagements at churches and unions on the crisis, with an estimated total of 3,000 present.

IA	Iowa Farmer Creditor Mediation Service 315 East 5th, Ste. 4 Des Moines, IA 50309 Michael Thompson (515)244-8214	Crisis prevention & outreach

Since May 1986, the Service has provided mediation between farmers and lenders in almost 5,000 cases throughout Iowa. since September 1986, they have conducted mediator trainings and educational events in other states, reaching 500-600 people.

IA	Prairiefire 550 11th Street Des Moines, IA 50309 Rev. David Ostendorf Dan Levitas (515)244-5671	Hotline Crisis prevention & outreach

Prairiefire utilized their funding to train volunteers and to conduct advocate training programs in 12 states, from Montana to Maine. They operate a farm crisis hotline, one of the first in the U.S., begun in 1982. During 1986 they received 5000 calls from Iowa and nationwide, and providing farmers with credit information and referrals. They reached 15,000 people in 1986 through various educational events. The group was also active in initiating the hay and grain shipments from the Midwest to the drought stricken Southeast. They held a Rural Women's Conference in Des Moines in January 1987, attended by over 500.

KS	Kansas Consultation of Cooperative Churches/ Interfaith Rural Life Comm. 4125 Gage Center Drive Topeka, KS 66604 Dorothy G. Berry, Coor. (913)272-9531	Emergency food & & needs

The group has provided food, medical and utility assistance to over 1,000 people in all 105 counties in Kansas since October 1985. They also provided holiday assistance to over 170 families in 1985 and 1986.

KS	Kansas Rural Center, Inc. 215 Pratt Street Whiting, KS 66552 Fred Bentley, Dir. or Mary Fund (913)873-3431	Hotline Crisis prevention & outreach

Since February 1986, the Center has provided financial and legal referrals through the hotline to over 500 people statewide. They held 25-30 informational meetings on borrowers' rights, 15 educational meetings on legislation, and 25-30 trainings on leadership, goal setting, and response to farm issues. Over 1,500 people attended these sessions. They send a monthly newsletter to 2,500 people, and in 1986 they provided 25 families with holiday needs funds. They also provided financial assistance for farmers to buy seed for the 1986 crop.

KY	Kentucky Community Farm Alliance Route 1, Box 378 California, KY 41007 Hal Hamilton, Coor. (606)635-1882	Hotline Crisis prevention & outreach

Since October 1986, the hotline has received approximately 100 calls from all over Kentucky. They provide legal information, and give referrals for stress and financial issues. County chapters throughout the state have formed credit committees to increase public awareness and education on the credit system.

LA	Louisiana Interchurch Conf. 440 N. Foster Drive, Ste. 106 Baton Rouge, LA 70806 Rev. James Stovall (504)924-0213	Emergency food & needs Education Hotline

The conference has provided emergency aid to approximately 100 families and individuals since July 1986. They have sponsored approximately 50 organizational and educational meetings on stress, farm credit and legal issues, with about 4,000 farmers attending. The Conference produces a quarterly newsletter, distributed to 8,000-10,000 farmers and ministers in the state. The LA. Extension Service has published and is distributing 40,000 copies of their educational book.

MI	Michigan Farm Unity Coalition P.O. Box 292 Bloomfield Hills, MI 48013 Dick Stout (313)852-7079	Emergency food & needs Crisis prevention & outreach Hotline

Michigan Farm Unity Coalition (cont.)

The Coalition provided emergency aid to 25 farmers in 1985, and 130 in 1986. Their hotline received 700 calls since April 1986 from all over Michigan. 400 of the callers were assisted and the balance were referred to other resources.

MI	Michigan Ecumenical Forum P.O. Box 10206 Lansing, MI 48901 Rev. Gustav Kopka, Jr., Carol Ingells (517)485-4395	Emergency food & needs

The Forum provided funds for emergency food, utility and medical needs to churches in 13 counties in central and lower Michigan. Funds were provided to 67 families from March 1986 to February 1987.

MN	Minnesota COACT 2395 University Ave. St. Paul, MN 55114 Denise Scheer or John Musick, Dir. (612)645-0115	Emergency food & needs Crisis prevention & outreach

This group utilized funds to educate and organize farmers on borrowers' rights and farm crisis-related issues. From March to September 1986, they held 10 workshops and meetings on FDIC, with an average of 30 attendees each, and from August-November 1986, 7 workshops/meetings on Farm Credit, with over 1,200 total attendees. They also produced educational materials on hunger in farm areas as well as a quarterly newsletter, with a circulation of 30,000.

MN	Family Farm Organizing Resource Center 2395 University Ave. St. Paul, MN 55114 Ellen Ryan or Jeff Blodgett (612)645-1231	Hotline Crisis prevention & outreach

Since February 1986, FFORC has received over 500 calls on their hotline. They provide information on credit and financial issues, and referrals for legal matters. Their annual conferences on farm and food policy, have consistently drawn crowds of over 200. They have conducted 6-8 meetings per month, to inform rural people of options and provide needed information. They also published and distributed over 1,000 copies of a handbook on borrowers' rights.

MN
League of Rural Voters
Education Project
3255 Hennepin Ave. South
Room 255B
Minneapolis, MN 55408
Julie Ristau
(612)827-6055

Crisis prevention
& outreach

The LRVEP is a national rural voter education network which is working to increase rural citizen participation in the political process. They have produced and distributed slideshows, public service announcements, a television special and printed materials designed to encourage participation of rural citizens. Over 20,000 people became active in 1986 through LRVEP sponsored projects, trainings and events.

MN
Groundswell, Inc.
Route 1, Box 140A
Brewster, MN 56119
Sue Beranek
(507)752-7158

Emergency food &
needs
Crisis prevention
& outreach
Hotline

The hotline, which receives 30-35 calls per day, has provided informational support and referrals for farmers since December 1985. The group gave money to food banks in St. Paul and farmers in 30-35 rural counties. Other money was given to 40 farm families for utilities, food and medicine. The group holds monthly informational meetings and distributes a monthly newsletter to 1,500 readers.

MN
Minnesota Council of Churches
122 W. Franklin Ave, #230
Minneapolis, MN 55404
Rev. Margaret J. Thomas
(612)870-3600

Emergency food &
needs

Since the Fall of 1985, the Council funded five food banks on three separate occasions. This money targeted assistance to significant farming communities throughout Minnesota.

MN
Minnesota Farm Advocate
Program Hotline
State of MN Dept. of Ag.
90 W. Plato Blvd.
St. Paul, MN 55107
Anne Kanten, Asst. Comm.
Lou Ann Kling, Dir.
(612)296-8170

Hotline

The Advocate Program used funds to hire and train over 24 advocates to assist farmers in counseling as well as in financial and legal issues. Since October 1985, they have helped over 10,000 farmers throughout Minnesota with financial and legal information as well as counseling.

MN League of Rural Voters Crisis prevention
Education Project & outreach
3255 Hennepin Ave. South
Room 255B
Minneapolis, MN 55408
Julie Ristau
(612)827-6055

The LRVEP is a national rural voter education network which is working to increase rural citizen participation in the political process. They have produced and distributed slideshows, public service announcements, a television special and printed materials designed to encourage participation of rural citizens. Over 20,000 people became active in 1986 through LRVEP sponsored projects, trainings and events.

MN Groundswell, Inc. Emergency food &
Route 1, Box 140A needs
Brewster, MN 56119 Crisis prevention
Sue Beranek & outreach
(507)752-7158 Hotline

The hotline, which receives 30-35 calls per day, has provided informational support and referrals for farmers since December 1985. The group gave money to food banks in St. Paul and farmers in 30-35 rural counties. Other money was given to 40 farm families for utilities, food and medicine. The group holds monthly informational meetings and distributes a monthly newsletter to 1,500 readers.

MN Minnesota Council of Churches Emergency food &
122 W. Franklin Ave, #230 needs
Minneapolis, MN 55404
Rev. Margaret J. Thomas
(612)870-3600

Since the Fall of 1985, the Council funded five food banks on three separate occasions. This money targeted assistance to significant farming communities throughout Minnesota.

MN Minnesota Farm Advocate Hotline
Program Hotline
State of MN Dept. of Ag.
90 W. Plato Blvd.
St. Paul, MN 55107
Anne Kanten, Asst. Comm.
Lou Ann Kling, Dir.
(612)296-8170

The Advocate Program used funds to hire and train over 24 advocates to assist farmers in counseling as well as in financial and legal issues. Since October 1985, they have helped over 10,000 farmers throughout Minnesota with financial and legal information as well as counseling.

MO	Missouri Rural Crisis Center 710 Rangeline Columbia, MO 65201 Roger Allison, Exec. Dir. Roberta Arensberg, Office Mgr. (314)449-1336	Emergency food & needs Crisis prevention & outreach General operating expenses & Hotline

The Center gave to 130 families in 1986 for emergency aid and holiday needs. Since December 1985, the hotline has received an average of 75 calls per day, and provides legal and credit information, as well as emotional support and referrals. They have conducted 40-50 educational and organizational meetings on farmers' legal and financial rights throughout the state. They provided emergency assistance for 320 farmers to buy seed for the 1986 crop year.

MO	Farm Alliance of Rural Missouri (F.A.R.M.) 605 Clark St. Jefferson City, MO 65102 Sister Stephanie Mertens (314)636-6005	Hotline Crisis prevention & outreach

F.A.R.M. provided 140 farmers with emergency needs money. Their emergency hotline has received an average of 45 calls per day since October 1985, and provides referrals to callers. FARM has sponsored an average of 1 town meeting a week which educate attendees on legal, legislative, and credit issues, with 15-20 people per meeting. Since October 1986, they have distributed their monthly newsletter to 6,000 readers.

MO	Farm Counseling Services, Inc. 102 East Madison Memphis, MO 63555 Donna Shoop, Mgr. (816)465-7232	Hotline General operating expenses Holiday needs

In December 1986, FCS distributed holiday needs funds to 25 families. The hotline, which receives 90-100 calls per week, provides financial and legal counseling for farmers. Their "Financial Workouts" program has assisted 700 farmers with debt restructuring since 1984. They produce and distribute a monthly newsletter to educate and inform people, and hold periodic "Farm Borrower Workshops". FCS also provided emergency assistance to help farmers buy seed to plant 1986 crops.

MT	Montana Assoc. of Churches 1511 Poly Drive Billings, MT 59102 Rev. Lawrence F. Small (406)252-5138	Emergency food & needs Hotline Holiday needs

Since 1986, over 80 farm families throughout Montana have been given financial assistance for food, medicine, and fuel. MAC oversees a hotline which has been staffed for over 3,800 hours. Their peer counselor program has provided over 550 families with one to one support in the areas of stress, finances, credit, and resources for farmers. Their Rural Ministries program has an outreach to 600 churches and 180,000 members, and regularly holds workshops for rural pastors, community and church members.

MT	Northern Plains Resource Council 416 Stapleton Bldg. Billings, MT 59101 Teresa Erickson, Staff Dir. (406)248-1154	Crisis prevention & outreach

The Council formed "grassroots" organizations in areas experiencing severe problems of foreclosures, liquidations and family stress/breakdown. From July-October 1986, the group did door to door canvassing in urban areas on the farm crisis, contacting 8,600 people. From May-October 1986, they did workshops on borrower rights, reaching approximately 400 farmers. In 1986, they conducted 20 educational town meetings with approximately 3,000 total attendees. They executed an educational mailing to 7,000 wheat farmers concerning a poll whose result would serve as a directive to Congress on the agriculture crisis.

MT	Western Organization of Resource Councils 412 Stapleton Bldg. Billings, MT 59101 Patrick Sweeney, Reg. Dir. (406)252-9672	Crisis prevention & outreach General operating expenses

This regional group organized farmers into 40 local groups in CO, MT, ND, and WY, to respond to farm crisis issues. In 1986, they ran 50 rural crisis action meetings and 21 borrowers' rights meet- ings, with between 10-125 farmers attending each meeting. WORC developed five model state policy reforms including mandatory mediation. They translated agricultural data into useful information and distributed it to over 25,000 people in four states.

NE Interchurch Ministries of Nebraska, Inc. — Emergency food & needs
215 Centennial Mall South
Lincoln NE 68508
Dr. Mel Leutchens, Ex. Sec.
(402)476-3391

The Ministries have provided funds to 100 food pantries throughout the state of Nebraska since 1985. The average pantry serves approximately 50 families per month. Since September 1985, 175 families have received funds for emergency utility and medical costs, and 50 families have received funds for Holiday needs.

NE Farm Crisis Response Network — Hotline
Box 383
Walthill, NE 68067
Kathleen Severens, Coord.
Judith Dye, hotline
(402)846-5578

Since September 1985, the hotline has delivered legal, financial, and emotional counseling and has worked directly with over 1,000 farmers/ranchers through the hotline and statewide network of 15 peer counselors. The hotline works with agencies, institutions, and churches, and has given workshops and presentations on the rural crisis to over 26,000 people.

NY New York State Farm Alliance — Crisis prevention & outreach
24 Depew
Lyons, NY 14489
Tom West
(315)946-5361

The Alliance consists of 27 chapters and affiliates that build coalitions between rural and urban people. They have conducted informational meetings for farmers, labor unions, and church groups on legal issues, legislation and the farm crisis. Since July 1986, they have produced over 300 educational mailings and have distributed a monthly newsletter. They conducted a statewide survey of farmers' attitudes, reaching almost 400 farmers.

NC
Rural Advancement Fund
P.O. Box 1029
Pittsboro, NC 27312
Betty Bailey, Dir.
(919)542-5292

Emergency food &
needs
Hotline

This group has set up 29 hotlines throughout North and South Carolina, including a central hotline, and has trained farmers as hotline operators. They have held workshops on credit, financial and other issues affecting farmers. Since September 1985, they have provided emergency financial aid for electricity and food to 962 families.

ND
Dakota Resource Council
Education Project
29 7th Ave., West
Dickenson, ND 58601
(701)227-1851

Crisis prevention
& outreach
General operating
expenses

The council held 15 "rural action" meetings throughout 1986 to discuss farm policy options which would raise farm income and therefore Main Street income. These meetings reached over 2000 people. The council also carried out direct mail appeals which reached 8,700 people in 1986. They conducted over 20 house and community meetings to build leadership skills among rural people committed to saving family farms and North Dakota towns. The Council was invited to work with several small community groups to help educate people on the source of the crisis and options.

ND
North Dakota Conference of
Churches
218 N. Fourth St.
Bismarck, ND 58501
Rev Charles Freuden, Pres.
(701)255-0604

Emergency food &
needs

The Conference distributed emergency aid for food to 12 food banks throughout North Dakota, which have served over 8,500 families in 1986. They have also provided farm families with emergency funds for fuel.

OH
Cincinnati Free Store/Food
Bank Rural Network
112 E. Liberty Street
Cincinnati, OH 45201
Steve Gibbes, Dir.
(513)241-1064

Emergency food &
needs

This organization used funds to make improvements in existing rural food banks. They work with 330 nonprofit agencies to distribute food to over 70,000 people per year.

◆

OH
Ohio Family Farm Movement
113 N. Scioto Street
Circleville, OH 43113
Dave Jordan or Kieth Wiens
(614)474-6622

Hotline

Since September 1985, FFM has operated a crisis hotline receiving 50 calls per month. Staffers furnish creit/financial assistance as well as emotional support. Board members serve as advocates or third parties for farmers in negotiation. They published "The Family Farm Movement's Guide to Starting and Operating a Farm Crisis Hotline."

OK
AG-LINK Coalition
Oklahoma Conf. of Churches/
Farm Crisis Task Force
P.O. Box 60288
Oklahoma City, OK 73146
Rev. Max Glenn, Ex. Dir.
(405)525-2928

Emergency food & needs
Crisis prevention & outreach
Hotline

Since October 1985, the Conference has received over 15,000 calls on their hotline, which provides emotional support, information, a legal referral service of 150 attorneys, and referrals to the farmer/creditor Agriculture Mediation Program. Since September 1986, they have formed support groups in over 12 counties, and volunteers in all 77 counties do suicide interrvention. In the area of education, they held 20 community forums across the state since March 1986. Events have included training sessions for attorneys and credit mediators, 19 day-long trainings sessions for clergy from May-June 1986, and trainings sessions for school systems. They developed three documentary films, an award-winning radio documentary, over 250 print-media articles with a circulation of 10 million people in OK, and a week-long public television documentary. In one year, they distributed emergency food to 2,220 families statewide.

SD
Assoc. of Christian Churches
of South Dakota
200 West 18th Street
Sioux Falls, SD 57104
Dr. Bruce Gray
(605)334-1980

Emergency food & needs
Hotline

The Association has provided emergency food, fuel, and medical needs for over 700 families since January 1986. They used additional funds to support local food pantries.

SD South Dakota Farmer's Union Hotline
1410 Dakota Ave. South
Huron, SD 57350
Carol Leibnow
(605)352-6761
(800)262-3210 (SD only)

In Cooperation with the SD Assoc. of Christian Churches, the Union has held educational workshops for farmers, provided free information packets to farmers on legal, credit, and support isuues, and operated a statewide hotline which has provided assistance and referrals to over 1,500 farmers since May 1986.

TN Commision on Religion in Emergency food & needs
Appalachia
P.O. Box 10867
Knoxville, TN 37919
Rev. James Sessions (615)584-6133

The Commision has distributed funding to 9 food banks throughout Appalachia since March 1986.

TX Texas Conference of Churches Emergency food & needs
2704 Rio Grande #9
Austin, TX 78705-4088
Rev. Frank Deitz
(512)478-7491

Since March 1986, the conference has provided over 1,500 families, throughout the rural areas of Texas with funds for emergency food, utilities and medical needs.

TX Farm Crisis Hotline, Inc. Hotline
P.O. Box 9046
Austin, TX 78765
Nancy Gallimore
(512)929-8321
(800)AGRI-AID (TX only)

Since November 1985, the hotline has received an average of 21 calls/day, on a variety of farm-related issues, and has provided referrals to lawyers, stress counselors, food banks and medical facilities.

VT Rural Vermont Hotline
43 State Street Crisis prevention &
Montpelier, VT 05062 outreach
Anthony Pollina
(802)223-7222
(800)FARMER1

Rural Vermont (cont.)

Since June 1986, Rural Vermont has held approximately 50 house-meetings on rural financial and credit issues, reaching about 1,000 Vermont farmers. Each of their 12 public education and awareness forums was attended by 10-200 people. In March 1987, they sponsored a national Dairy Farmers' meeting, in which farmers from 20 states nationwide met to discuss regional differences.

VA Rural Virginia
Box 105
Richmond, VA 23201
Rick Cagan, Ex. Dir.
(804)782-9438

Crisis prevention & outreach

Rural Virginia has built a network of 100 attorneys able and qualified to assist family farmers. They have held educational conferences, meetings and media events on food and agricultural issues. They average 6 informational meetings per month throughout Virginia, with 12-100 people at each. They participated in a television broadcast on the disappearing black farmer in Virginia, and produced and distributed a tabloid, "Virginia Food, Farms and You." They distributed Holiday needs funds to 33 families in 1986.

WI Farm Crisis Response Network/
Wisconsin Conf. of Churches
1955 West Broadway, Ste. 104
Madison, WI 53713
Bonnie Voss
(608)222-9779

Emergency food & needs

Since December 1985, the Network distributed food and emergency needs to over 440 households, using 14 foodbanks throughout the state. For example, they stocked one family's pantry with food and bought enough fuel to plant their crops, and helped another farmer who needed medical care. On another occasion they assisted a displaced farm family whose power was being disconnected.

WI	Wisconsin Farm Unity Alliance 231 East Oak Street Glenwood City, WI 54013 Tom Quinn (715)875-4548	Hotline Crisis prevention & outreach Self Help

The Alliance has maintained 8 local hotline numbers throughout Wisconsin with two statewide referral numbers. Since October 1985, these hotlines have received over 1500 calls. The staff advocates worked with 480 farmers on a one-to-one basis to negotiate with lenders. They organized 21 local farm credit information meetings with 725 farmers attending. Since October 1985, they have conducted farm crisis educational meetings for 900 farmers.

WY	Wyoming Rural Support Network P.O. Box 1121 Torrington, WY 82240 Nedalyn Testolin, Ex. Dir. Martha Weygint, Asst. Dir. (307)532-5142	Hotline Crisis prevention & outreach

The Network has provided food and emergency aid to 50 farm families for utilities, food, medical supplies, relocation costs, and emergency legal assistance. Since September 1985, the hotline has received 3 calls/day for assistance and referrals, and has helped over 1,000 families. Their educational activities include training for police officers on foreclosure practices, credit workshops, and outreach to schools. Their quarterly newletter has a circulation of 5,000.

NATIONAL

DC	American Agriculture Movement Inc. 100 Maryland Ave., N.E. Suite 500A, Box 69 Washington, DC 20002 David Senter, Dir. (202)544-5750 (202)544-6024/Info. Update	Hotline Emergency food & needs Crisis prevention & outreach

AAM distributed $300,000 worth of seed to farmers in 20 states in 1986. Since its expansion in 1985, AAM's hotline services approximately 100 calls daily from 40 states. It provides information about Federal programs available to famers, and also about local farm-related meetings nationwide. AAM holds informational meetings throughout the U.S., and mails packets to farmers on important farm isuues and how to respond.

National (cont.)

DC	American Family Farm Foundation, Inc. 100 Maryland Ave., N.E. Suite 500A, Box 69 Washington, DC 20002 Joan Senter, Dir. (202)547-6767	Emergency needs Crisis prevention & outreach

In 1986, AFFP researched and determined which dairy farmers were under quarantine from Heptaclor contamination, and gave food and medical aid to 50 farmers. They conduct educational events to bridge the gap between farmers, laborers, and consumers, provide speakers on farm issues for meetings across the country, and provide informational materials to media, public officials, and the general public. In 1986, they hosted the "America on Film" series at the Smithsonian Institute.

IA	North American Farm Alliance 240 1/2 Main Street Ames, IA 50010 Carol Hodne, Director (515)232-1008	Hotline Crisis prevention & outreach

NAFA consists of over 20 U.S. and Canadian farm and justice organizations. Since October 1985, their hotline has received an average of 20 calls per month. Callers are provided with referrals to legal advocates, emotional counselors, and other resources. NAFA receives 1,000 requests for information per month, and has available 60-70 pieces of written educational material on farm policy, the source of the farm crisis, legal and international farm issues. They sponsor an average of 160 educational meetings per year for farm and non-farm groups, which serve to make connections between the farm crisis and other social issues. They publish and distribute over 15,000 copies per month of their newspaper, "North American Farmer". In 1986, they provided 30-40 families in the midwestern and southeasterb states with funds for holiday needs.

MN	Farmers' Legal Action Group, Inc. (F.L.A.G.) 46 E. 4th St. Ste. 1301, MN Bldg. St. Paul, MN 55101 Jim Massey, Dir. (612)223-5400	Legal assistance

National (cont.)
FLAG (cont.)

FLAG used funding to give seminars, lectures and workshops on legal issues. The staff of FLAG travel extensively throughout the country, giving workshops to farmers, farm advocates, and lawyers. In one year, FLAG held 60 seminars in 20 states, with over 4,500 participants. In the one month period from October-November 1986, FLAG did 17 workshops from Maryland to Texas to Minnesota to South Dakota to California.

MT	National Save the Family Farm Coalition P.O. Box 414 Circle, MT 59215 Helen Waller, Pres. 406)485-3324	Crisis prevention & outreach
DC	80 F St., NW, Ste. 714 Washington, DC 20001 Kris Jacobs (202)737-2215	

The Coalition consists of 38 member groups in approximately 28 states. Member groups organize press conferences and media events which bring attention to the farm crisis and the need to resolve it. They conduct home meetings and public forums to inform rural people of available legislative options. Their members make visits to Congressional District offices in order to inform citizens of government process and encourage them to be active participants in that process.

NY	National Council of Churches Domestic Hunger & Poverty Division of Church & Society 475 Riverside Dr., Rm. 572 New York, NY 10115 Mary Ellen Lloyd (212)870-2307	Emergency food & needs

The Council consists of 32 denominations, representing 40 million people in the U.S. They disburse the Farm Aid "emergency food and needs" funds, for food, preventive medicine, and home utilities, to approximately 35 community organizations and state ecumenical agencies throughout the country.

FARM AID
Keep America Growing!
21 Erie St., Room 20
Cambridge, MA 02139
(617) 354-2922

DIRECTORY OF ORGANIZATIONS FUNDED BY FARM AID

June 3, 1987

Directory of Organizations
June 3, 1987

STATE	ORGANIZATION	FUNCTION	TELEPHONE
ARIZONA	ARIZONA ECUMENICAL COUNCIL 1226 W. Osborn Road Phoenix, AZ 85013 Eliza Carney, Sec.	Emergency Food & Needs	(602)279-0228 602/266-4044
ARKANSAS	ARKANSAS CONFERENCE OF CHURCHES AND SYNAGOGUES 415 N. Maple, PO Box 5292 North Little Rock, AR 72119 Dale E. Bard	Emergency Food & Needs Hotline	(501)375-1553
CALIFORNIA	CALIFORNIA ASSOCIATION OF FAMILY FARMERS PO Box 363 Davis, CA 95617 Tom Haller	Emergency Food & Needs	(916)756-7420
COLORADO	COLORADO COALITION TO SAVE RURAL AMERICA 101 N. Washington Box 231 Otis, CO 80743 Bud Mekelburg, Bill Glover	Emergency Food & Needs Hotline	(303)246-3414 303/246-3416
	COLORADO COUNCIL OF CHURCHES 1370 Pennsylvania Ave Denver, CO 80203 Rev. Vince Shively	Hotline	(303)861-1884
	COLORADO RURAL CRISIS HOTLINE 101 N. Washington, Box 231 Otis, CO 80743 Bill Glover	Hotline	(303)246-3416

STATE	ORGANIZATION	FUNCTION	TELEPHONE
COLORADO	FDTN. FOR AG. ED. & DEV. WOMEN INVOLVED IN FARM ECONOMICS (W.I.F.E.) Route 1, #1892 County Rd. 53 Sterling, CO 80751 Naioma Benson, Na. Pres.	Education	(303)521-0296
	WESTERN COLORADO CONGRESS 7 North Cascade Montrose, CO 81402 Kevin Williams, Staff Dir.	Crisis Prevention & Outreach	(303)249-1978 303/249-1978
GEORGIA	CENTER FOR DEMOCRATIC RENEWAL P.O. Box 10500 Atlanta, GA 30310 Lenny Zeskind	Education	(404)221-0025
	FEDERATION OF SOUTHERN COOPERATIVES 100 Edgewood Ave NE Suite 1228 Atlanta, GA 30303 Ralph Paige, Ex. Dir. John Zippert, Dir.	Emergency Food & Needs Hotline Crisis Prevention & Outreach Self Help	(404)524-6882 800/547-1986 in Georgia 800/358-0488 Southwide

*Georgia is the base of operations for the Federation of Southern Cooperatives, which covers AL, GA, FL, MS, and SC and also works in AR, KY, LA, NC, TN, TX, and WV.

Directory of Organizations
June 3, 1987

STATE	ORGANIZATION	FUNCTION	TELEPHONE
IDAHO	FAMILY FARM ASSISTANCE ACCOUNT 2270 Old Penitentiary Road Box 790 Boise, ID 83712 Richard Rush, Dir. Dept. Ag.	Hotline	(208)334-3240
	IDAHO HUNGER ACTION COUNCIL 205 N. 10th, Suite 602 Boise, ID 83702 Wanda Michaelson	Emergency Food & Needs	(208)336-7010
	IDAHO RURAL COUNCIL Route 2, Box 5374 Twin Falls, ID 83301 Walt Mueller	Program development & support	(208)733-1390 208/733-1390
ILLINOIS	ILLINOIS CENTER FOR CITIZEN INVOLVEMENT/DEVELOPMENT 100 North Main Street Edwardsville, IL 62025 Larry Gallagher	Hotline Crisis Prevention & Outreach	(618)656-8922
	ILLINOIS FARM ALLIANCE 100 North Main Street Edwardsville, IL 62025 Larry Gallagher	Hotline Crisis Prevention & Outreach	(618)656-8922
	ILLINOIS SOUTH PROJECT 116 1/2 West Cherry Street Herrin, IL 62948 Susan Denzer	Emergency Food & Needs Hotline Crisis Prevention & Outreach	(618)942-6613

STATE	ORGANIZATION	FUNCTION	TELEPHONE
INDIANA	INDIANA COUNCIL OF CHURCHES 1100 West 42nd Street Indianapolis, IN 46208 Barton Hunter, Interim Dir.	Emergency Food & Needs	(317)923-3674
	INDIANA RURAL CRISIS 1854 W Grove Road Centerville, IN 47330 Susan Bright	Hotline	(317)855-2265
	LEGAL SERVICES ORGANIZATION OF INDIANA, INC. Investors Trust Bldg. Ste. 300 100 N. Pennsylvania Street Indianapolis, IN 46204 Susan Bright, Chair	Hotline	(317)855-2265
IOWA	IOWA CITIZEN ACTION NETWORK EDUCATION FOUNDATION 805 1/2 Locust Street Suite 212 Des Moines, IA 50309 Mike Lux	Crisis Prevention & Outreach	(515)244-9311 Cedar Rapids: 319/363-7208
	IOWA FARM UNITY COALITION Box 227, Public Square Greenfield, IA 50849 Dixon Terry	Crisis Prevention & Outreach	(515)244-5672

STATE	ORGANIZATION	FUNCTION	TELEPHONE
IOWA	IOWA FARMER-CREDITOR MEDIATION SERVICE 315 E. 5th, Suite 4 Des Moines, IA 50309 Michael Thompson	Crisis Prevention & Outreach	(515)244-8214
	IOWA INTERCHURCH AGENCY FOR PEACE AND JUSTICE 3816 36th Street Des Moines, IA 50310 Roz Ostendorf	Emergency Food & Needs Education	(515)255-5905
	IOWA RURAL CRISIS FUND IOWA INTERCHURCH FORUM 3816 36th Street Des Moines, IA 50310 Roz Ostendorf	Emergency Food & Needs	(515)255-5905 515/244-2253
	NORTH AMERICAN FARM ALLIANCE 240 1/2 Main Street Box 2502 Ames, IA 50010 Carol Hodne, Ex. Dir.	Hotline Crisis Prevention & Outreach	(515)232-1008
	NORTH AMERICAN FARM ALLIANCE EDUCATION PROJECT PO Box 176 Ames, IA 50010 Carol Hodne, Ex. Dir.	Emergency Food & Needs Crisis Prevention & Outreach Education	(515)232-1008
	NORTHWEST IOWA MENTAL HEALTH CENTER 201 East 11th Street Spencer, IA 51301 Joan Blundall, Coor.	Crisis Prevention & Outreach	(721)262-2922

STATE	ORGANIZATION	FUNCTION	TELEPHONE
IOWA	RURAL AMERICA/PRAIRIEFIRE 550 Eleventh Street Des Moines, IA 50309 Dan Levitas Rev. David Ostendorf	Hotline Crisis Prevention & Outreach	(515)244-5671 515/244-5672
	RURAL WOMEN'S CONFERENCE 3816 36th Street Des Moines, IA 50310 Roz Ostendorf	Crisis Prevention & Outreach	(515)255-5905
KANSAS	KANSAS CONSULTATION OF COOPERATIVE CHURCHES 4125 Gage Center Drive Topeka, KS 66604 Dorothy G. Berry, Coor.	Emergency Food & Needs	(913)272-9531
	KANSAS RURAL CENTER, INC. 215 Pratt Street Whiting, KS 66552 Fred Bentley, Dir. Mary Fund	Hotline Crisis Prevention & Outreach Sow Some Hope	(913)873-3431
	WESTERN KANSAS FARM ALLIANCE Box 10 Quinter, KS 66752 Darrell & Margaret Ringer	Hotline Crisis Prevention & Outreach Sow Some Hope	(913)754-3588

STATE	ORGANIZATION	FUNCTION	TELEPHONE
KENTUCKY	COMMUNITY FARM ALLIANCE Route 1, Box 63 Woodsend Farm Pleasureville, KY 40057 Hal Hamilton, Coor.	Hotline Crisis Prevention & Outreach	(606)635-1882
	KENTUCKY COUNCIL OF CHURCHES 1039 Goodwin Drive Lexington, KY 40505 Rev. John Bush	Emergency Food & Needs	(502)253-3027
LOUISIANA	LOUISIANA INTERCHURCH CONFERENCE 440 North Foster Drive Suite 106 Baton Rouge, LA 70806 Rev. James Stovall	Emergency Food & Needs Hotline Education	(504)924-0213
MAINE	MAINE FARM CRISIS HOTLINE PO Box 10660 519 Ocean Avenue Portland, ME 04101-6060 Walt Whitcomb	Hotline	(207)342-5135
MINNESOTA	FAMILY FARM ORGANIZING RESOURCE CENTER 2395 University Avenue St. Paul, MN 55114 Jeff Blodgett Ellen Ryan	Hotline Crisis Prevention & Outreach	(612)645-1231

STATE	ORGANIZATION	FUNCTION	TELEPHONE
MINNESOTA (National)	FARMERS LEGAL ACTION GROUP (F.L.A.G.) Ste. 1301 Minnesota Building 46 East Fourth Street St. Paul, MN 55101 Jim Massey, Dir.	Legal Assistance	(612)223-5400
	GROUNDSWELL, INC. RR1, Box 140A Brewster, MN 56119 Paul Sobocinski Sue Beranek Bobbie Polzine	Emergency Food & Needs Hotline Crisis Prevention & Outreach	(507)842-5487 507/752-7158
	LAND STEWARDSHIP PROJECT 512 West Elm Street Stillwater, MN 55082 Ron Kroese, Ex. Dir. Steve O'Neil	Hotline	(612)430-2166
(National)	LEAGUE OF RURAL VOTERS EDUCATION PROJECT 3255 Hennepin Ave South Room 252 Minneapolis, MN 55408 Julie Ristau	Crisis Prevention & Outreach Education Sow Some Hope	(313)852-7079
	MINNESOTA COACT 2395 University Avenue St. Paul, MN 55114 John Musick, Dir. Denise Scheer	Emergency Food & Needs Crisis Prevention & Outreach	(612)645-0115

STATE	ORGANIZATION	FUNCTION	TELEPHONE
MINNESOTA	MINNESOTA COUNCIL OF CHURCHES 122 West Franklin Ave, #230 Minneapolis, MN 55404 Rev. Margaret J. Thomas	Emergency Food & Needs	(612)870-3600
	MINNESOTA DEPT. OF AG. ADVOCATE PROGRAM HOTLINE State of MN, Dept. of Ag. 90 West Plato Boulevard Saint Paul, MN 55107 Anne Kanten, Asst. Comm. Lou Ann Kling, Dir.	Hotline	(612)296-8170 800/652-9747 in MN only
	MINNESOTA FARM COALITION 3255 Hennepin Ave South Room 252 Minneapolis, MN 55408 Darlene Schiller	Crisis Prevention & Outreach	(612)825-0138
	NORTHWEST AG ACTION, INC. MN Northwest Coaliton for Rural America,c/o ABTI College Thief River Falls, MN 56701	Crisis Prevention & Outreach Sow Some Hope	(218)681-6236
	RURAL EDUCATION & RESOURCE CENTER 333 East Grant Street, #217 Minneapolis, MN 55404 Don French 507/635-5619 Wayne Souhrada 507/584-6871	Education	(612)872-9092

STATE	ORGANIZATION	FUNCTION	TELEPHONE
MICHIGAN	FARM UNITY COALITION LEAGUE OF RURAL VOTERS PO Box 292 Bloomfield Hills, MI 48103 R.K. Stout (Dick)	Hotline Crisis Prevention & Outreach Sow Some Hope	(313)852-7079
	MICHIGAN ECUMENICAL FORUM 809 Center Street Suite 7B Lansing, MI 48906 Carol Ingells, Staff Assoc.	Emergency Food & Needs	(517)485-4395
	MICHIGAN FARM UNITY COALITION MI League of Rural Voters P.O. Box 292 Bloomfield Hills, MI 48013 Dick Stout	Emergency Food & Needs Hotline Crisis Prevention & Outreach	(313)852-7079
	MICHIGAN LEAGUE OF RURAL VOTERS P.O. Box 292 Bloomfield Hills, MI 48013 Dick Stout	Emergency Food & Needs Hotline Crisis Prevention & Outreach	(313)852-7079
MISSOURI	AMERICAN AGRICULTURE MOVEMENT GRASSROOTS 402 North Douglas Malden, MO 63863 Sherman Webb, Sec. & Treas. Ken Crago Carlos Welty	Hotline	(314)276-5556

STATE	ORGANIZATION	FUNCTION	TELEPHONE
MISSOURI	FARM ALLIANCE OF RURAL MISSOURI (FARM) Diocese of Jefferson City 605 Clark Ave, PO Box 417 Jefferson City, MO 65102 Sr. Stephanie Mertens, Con.	Hotline Crisis Prevention & Outreach	(314)636-6005
	FARM COUNSELING SERVICES 102 East Madison Memphis, MO 63555 Donna Shoop	Hotline Sow Some Hope	(816)465-7232
	FESTIVAL OF SHARING Box 733 Columbia, MO 65205 Lee Whiteside	Emergency Food & Needs	
	MISSOURI RURAL CRISIS CENTER 710 Rangeline Road Columbia, MO 65201 Roger Allison, Ex. Dir. Roberta Arensberg, Office Mngr	Emergency Food & Needs Hotline Crisis Prevention & Outreach	(314)449-1336

STATE	ORGANIZATION	FUNCTION	TELEPHONE
MISSOURI	UNITED METHODIST CHURCH MISSOURI EAST CONFERENCE 4625 Lindell Boulevard Suite 424 St. Louis, MO 63108 Paul Schlapbach	Sow Some Hope	(314)367-7422
MONTANA	MISSOULA PEOPLE'S ACTION P.O. Box 9375 Missoula, MT 59807 Jim Fleischmann	Education	(406)728-5297
	MONTANA ASSOCIATION OF CHURCHES 1511 Poly Drive Billings, MT 59102 Rev. Lawrence F. Small	Emergency Food & Needs Sow Some Hope	(406)252-5138
	MONTANA FARM COUNSELING & ADVOCACY COALITION HOTLINE Rocky Mtn. College, Tyler Hall 1511 Poly Drive Billings, MT 59102 Barbara Archer, Coor. Lawrence Small John M. Schaeffer	Emergency Food & Needs Hotline	(406)252-5138 406/653-2492 MT Crisis Lin JoAnn Forness, Box 5035 Wolf Point, MT 59201
(National)	NATIONAL SAVE THE FAMILY FARM COALITION P.O. Box 414 Circle, MT 59215 Helen Waller, Pres.	Crisis Prevention & Outreach	(406)485-3490

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STATE	ORGANIZATION	FUNCTION	TELEPHONE
MONTANA	NORTHERN PLAINS PROJECT 416 Stapleton Building Billings, MT 59101 Teresa Erikson, Staff Dir.	Crisis Prevention & Outreach	(406)248-1154
	NORTHERN ROCKIES ACTION GROUP 9 Placer Helena, MT 59601 Phil Lansing	Crisis Prevention & Outreach Sow Some Hope	(406)442-6615
	WESTERN ORGANIZATION OF RESOURCE COUNCILS 412 Stapleton Building Billings, MT 59101 Patrick Sweeney	Crisis Prevention & Outreach Program development & support	(406)248-1154
NEBRASKA	FARM ACTION CONCERNS TOMORROW'S SOCIETY (FACTS) 300 East Union University Nebraska-Lincoln Lincoln, NE 68588 Lee Wagnerq	Program development & support	(402)467-5132
	FARM CRISIS COMMITTEE Box 279 Emerson, NE 68733 Betty Fuchser	Crisis Prevention & Outreach Sow Some Hope	(402)695-2407
	GREAT PLAINS ORGANIZING PROJECT 4500 Linden Drive Box 242 Kearney, NE 68847 Richard D. Turner, Chair	Program development & support	(308)237-3158

STATE	ORGANIZATION	FUNCTION	TELEPHONE
NEBRASKA	INTERCHURCH MINISTRIES OF NEBRASKA Suite 411, Lincoln Cntr. Bldg. 215 Centennial Mall South Lincoln, NE 68508-1888 Dr. Mel Leutchens, Ex. Sec.	Emergency Food & Needs Hotline Crisis Prevention & Outreach	(402)476-3391
	NEBRASKA FARM CRISIS NETWORK Box 383 Walthill, NE 68067 Kathleen Severens, Coor. Judith Dye, hotline	Hotline	(402)846-5578
	NEBRASKA STATEWIDE PANTRY NETWORK 215 Centennial Mall South Room 303 Lincoln, NE 68508 Mel Luetchens, Ex. Sec.	Emergency Food & Needs	(402)476-3391
	NEBRASKANS FOR PEACE NEBRASKA PEACE FOUNDATION 430 South 16th Lincoln, NE 68508 Betty Olson	Emergency Food & Needs Crisis Prevention & Outreach	(402)475-4620 B. Olson, home: 475-1318
NEW MEXICO	NEW MEXICO CONFERENCE OF CHURCHES 124 Hermosa S.E. Albuquerque, NM 87108 Dr. Wallace Ford	Emergency Food & Needs	(505)255-1509

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NEW YORK (National)	NATIONAL COUNCIL OF CHURCHES, DOMESTIC HUNGER & POVERTY 475 RIVERSIDE DRIVE, RM 572 NEW YORK, NY 10115 Mary Ellen Lloyd, Dir.	Emergency Food & Needs	(212)870-2307
	NEW YORK FARM ALLIANCE 24 Depew Lyons, NY 14489 Tom West	Crisis Prevention & Outreach	(315)365-2664
	NEW YORK STATE COUNCIL OF CHURCHES, INC. 3049 East Genesee Street Syracuse, NY 13224 Rev. Jon L. Regier	Emergency Food & Needs	(315)446-6151
NO. CAROLINA	RURAL ADVANCEMENT FUND FARM SURVIVAL PROJECT 2124 Commonwealth Avenue Charlotte, NC 28205 Kathryn Waller, Ex. Dir. Betty Bailey, Dir. Farm Survival Project	Emergency Food & Needs Hotline	(919)542-5292 704/334-3051
NORTH DAKOTA	DAKOTA RESOURCE COUNCIL DAKOTA RESEARCH PROJECT P.O. Box 254 29 Seventh Ave West Dickinson, ND 58601 Theresa Keaveny, Staff Dir.	Crisis Prevention & Outreach Program development & support	(701)227-1851

STATE	ORGANIZATION	FUNCTION	TELEPHONE
NORTH DAKOTA	NORTH DAKOTA CONF OF CHRUCHES RURAL LIFE TASK FORCE 218 North Fourth Street Bismarck, ND 58501 Charles Freuden	Emergency Food & Needs	(701)255-0604
OHIO	FAMILY FARM MOVEMENT 113 1/2 N. Scioto Street Circleville, OH 43113 Dave Jordan, Chair Kieth Wiens	Hotline Crisis Prevention & Outreach Sow Some Hope	(614)224-4111
	FREE STORE/FOOD BANK 112 East Liberty Street Cincinnati, OH 45201 Steve Gibbes, Director	Emergency Food & Needs	(513)241-1064
	OHIO COUNCIL OF CHURCHES 89 E. Wilson Bridge Road Columbus, OH 43085 Rev. Carlton Weber	Emergency Food & Needs	(614)885-9590
OKLAHOMA	OKLAHOMA CONF OF CHURCHES FARM CRISIS TASK FORCE 2901 Classen Boulevard P.O. Box 60288 Okalahoma City, OK 73146 Rev. Max Glenn, Ex. Dir.	Emergency Food & Needs Hotline Crisis Prevention & Outreach	(405)525-2928 800/248-5465 in OK only

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OREGON	ECUMENICAL MINISTRIES OF OREGON 0245 S.W. Bancroft, Ste. B Portland, OR 97201 Barbara L. George	Emergency Food & Needs	(503)221-1054
PENNSYLVANIA	PENNSYLVANIA COALITION ON FOOD AND NUTRITION 221 Pine Street Harrisburg, PA 17101 Jim Stephenson, Dir.	Emergency Food & Needs	(717)233-6705
SOUTH DAKOTA	ASSOCIATION OF CHRISTIAN CHURCHES OF SOUTH DAKOTA 200 West 18th Street Sioux Falls, SD 57104 Dr. Bruce Gray	Emergency Food & Needs Hotline Sow Some Hope	(605)334-1980
	SOUTH DAKOTA FARMERS UNION 1410 Dakota Ave South Huron, SD 57350 Lelan Swenson, Pres. Bill Bullard, Dir.	Hotline	(605)352-6761 800/262-3210 within SD
TENNESSEE	THE COMMISSION ON RELIGION IN APPALACHIA P.O. Box 10867 Knoxville, TN 37919 Rev. James Sessions	Emergency Food & Needs	(615)584-6133

STATE	ORGANIZATION	FUNCTION	TELEPHONE
TEXAS	AGRICULTURAL COUNCIL OF TEXAS PO Box 12847 Austin, TX 78589	Self Help	(512) 434-3569
	TEXAS CONFERENCE OF CHURCHES & TEXAS FARM CRISIS HOTLINE P.O. Box 4096 Austin, TX 78765 Frank H. Dietz, TX Conf. Nancille Gallimore, Dir. TX Farm Crisis Hotline	Emergency Food & Needs Hotline Crisis Prevention & Outreach	(512)929-8321 800/AGRI-AID in TX only
	VALLEY FARMERS COOP Route 1, Box 44D San Juan, TX 78589 Julio Castilleja	Self Help	(512)787-0823
	WEST AREA YOUNG FARMERS Route 2, Box 22 West, TX 78589 Terry Mechell, Pres.	Self Help	(817)826-3765 Harry Siems: 826-3244 (w) 826-3230 (h)
VERMONT	RURAL VERMONT 43 State Street Montpelier, VT 05602 Anthony Pollina	Crisis Prevention & Outreach	(800)223-7222* 800/FARMER1
	VERMONT ECUMENICAL COUNCIL & BIBLE SOCIETY 272 Pearl Street Burlington, VT 05401 Rev. John Nutting	Emergency Food & Needs	(802)864-7723

STATE	ORGANIZATION	FUNCTION	TELEPHONE
VIRGINIA	RURAL VIRGINIA Box 105 Richmond, VA 23201 Rick Cagan, Ex. Dir.	Crisis Prevention & Outreach	(804)782-9438
	VIRGINIA COUNCIL OF CHURCHES 2321 Westwood Avenue Richmond, VA 23230 Rev. David Isch	Emergency Food & Needs	(804)353-5587
WASHINGTON	WASHINGTON ASSOCIATION OF CHURCHES 4759 15th Ave, NE Seattle, WA 98105 Rev. Loren E. Arnett	Emergency Food & Needs	(206)525-1988
WISCONSIN (National)	NATIONAL FUTURE FARMERS OF AMERICA FOUNDATION (FFA) 310 North Midvale Blvd. P.O. Box 5117 Madison, WI 53705-0117 Bernie Staller, Ex. Dir.	Education	(608)238-4222

STATE	ORGANIZATION	FUNCTION	TELEPHONE
WISCONSIN	WISCONSIN CONF OF CHURCHES FARM CRISIS RESPONSE NETWORK 1955 West Broadway, Suite 104 Madison, WI 53713 Bonnie Voss	Emergency Food & Needs	(608)222-9779
	WISCONSIN FARM UNITY ALLIANCE 231 East Oak Street Box 303 Glenwood City, WI 54013 Tom Quinn	Hotline Crisis Prevention & Outreach Self Help Education	(715)875-4548
WYOMING	POWDER RIVER BASIN RESOURCE COUNCIL 46 North Main Sheridan, WY 82801 Jan Flaherty, Staff Dir.	Crisis Prevention & Outreach Education	(307)672-5809
	WYOMING RURAL SUPPORT NETWORK P.O. Box 1121 Torrington, WY 82240 Burton Kugler, Pres. Bd. Dirs. Nedalyn Testolin, Ex. Dir. Martha Weygint, Asst. Dir.	Emergency Food & Needs Hotline Crisis Prevention & Outreach	(307)532-5142
WASHINGTON DC (National)	AMERICAN AGRICULTURE MOVEMENT INC. 100 Maryland Ave NE 5th floor, Box 69 Washington, DC 20002 David Senter, Dir.	Emergency Food & Needs Hotline Crisis Prevention & Outreach Sow Some Hope	(202)544-5750 202/544-6024, Info Update

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WASHINGTON DC (National)	AMERICAN FAMILY FARM FOUNDATION 100 Maryland Ave, NE Suite 500A, Box 65 Washington, DC 75720 Joan Senter, Dir.	Emergency Food & Needs Crisis Prevention & Outreach	(202)547-6767
(National)	FAMILY FARM DEFENSE FUND 1334 G Street, NW 6th floor Washington, DC 20005 Roger Blobaum, Ex. Dir.	Legal Assistance	(202)639-8708
(National)	INSTITUTE FOR AGRICULTURE & TRADE POLICY Suite 500A, Box 69 100 Maryland Ave, NE Washington, DC 20002 Jeane Hilary Johnson	Education	(202)686-4221

Senator **Melcher**. Willie and John, I want to thank you on behalf of the American farmers and ranchers. I think what you have done through Farm Aid has demonstrated that you know that there are people who are suffering and that you have reached out to those people and that you have given of your talents to show them that you understand that they are in trouble and want to help. You draw the attention of the public by using your talents to show that these people across the countryside of America are looking for better days and better times, and a better method to get there.

I think people respond to both of you because you proved you have heart and you have compassion. There is no better way to demonstrate that than what the two of you have done over the past several years.

Thank you very much.

Senator Daschle.

Senator **Daschle**. Thank you, Mr. Chairman.

I think that if they are coming to you with the frequency that it appears they are, that it is probably for two reasons. One, they trust you more than they trust their politicians. I don't think they have got a lot of confidence in their politicians' ability to solve this problem, and you and Farm Aid have epitomized responsiveness, a responsiveness that is tangible—$8 million of tangibility has come out as a result of Farm Aid. That is something that is pretty dramatic.

In our case, while we have a farm bill for which the politicians have responded, that is the farm policy set out that by and large has demonstrated failure, at least in the wheat and feedgrain areas. So I think it is incumbent upon us as politicians to be responsive, as responsive as you have demonstrated with your leadership in Farm Aid.

But that is where I think we as people on this subcommittee need to get our act together, frankly. I think if you talk to the five of us, you are going to get five different proposals on what to do, and that's the tragedy. Everybody has got his own idea, and with his own idea there absolutely lacks the kind of consensus, the kind of coalition, the kind of meaningful communication that has to bring about the solution we are looking for.

Until this subcommittee and the people on our side get its collective act together, there is very little hope that we can respond as affirmatively as you have.

I hope this year Democrats understand that message, and working with Republicans collectively, we can get our act together and how that it's more than just pride of authorship, it's more than just an individual concern for a policy that philosophically appeals to us that will bring us to the conclusion that unless we get our act together, that kind of incredible attrition is going to continue. That doesn't have to be, and I think you have again solidified that intent and that determination on our part, and I just hope it lasts for awhile.

Thank you.

Senator **Melcher**. Senator Heflin.

Senator **Heflin**. Well, I want to thank you for what you have done, and you have done a great deal. I think what has happened over the last several years has been that the farmland has been in a depression.

John, you were not raised in the Great Depression but, Willie, you were and I was, and I know something about it. Six cent cotton and 30 cents a gallon for milk and a dollar a day for farm labor.

I guess you remember the three C's, collards, cornbread, and catfish.

So living, in effect, there is a relationship to music and the farm crisis of today. I think some of the finest country music came out singing the miseries of the Great Depression and the farm crisis of today. And you, in effect, are pointing up the miseries of the farm depression that we have today. Keep it up, and God bless you.

Senator **Melcher**. Senator Conrad.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator **Conrad**. Thank you, Mr. Chairman, and thank you both.

I can remember very well, Willie, when you came to North Dakota to the State Fair and made a statement about agriculture and the need for farmers to be helped, and it made a great difference because it helped give people hope.

I am reminded of the hearings that we held across the Midwest when Pat Leahy, who is the chairman of the committee, asked the farmers in the audience in Iowa some questions. He asked how many had lost a neighboring farm, and the hands shot up in that audience. Then he asked how many had lost an implement dealer in their county, and the hands shot up in the audience. Then he asked them how many had lost a store on Main Street because of what is happening in agriculture, and the hands shot up in that audience.

And then he asked them an interesting question. He said how many of you have given up hope? There was an audience of over 200, and not a single hand went up. And I think that says something pretty remarkable about the people that you are talking for here today. It says something pretty remarkable about the people of Iowa. It says something pretty remarkable about the people of the Heartland, and they have not given up hope, but they are very anxious and they are waiting, and the clock is ticking, and the question is will there be something done that turns us in a different direction, because the direction we are going of cut price, cut price, beggar thy neighbor, leaves us with a price that is disastrous, and leaves us without hope.

So the question before us is—do we have the ability to persuade our colleagues because, frankly, you are all preaching to the choir here. Look at the Senators who are here. The reason we are here is because we are already convinced, and our job is to convince our colleagues. It's not easy because there are many Senators who look at what we are faced with in this country in terms of the budget, and they look at the priorities. Some of them have different priorities than we do, and they throw up their hands, and they say what can be done.

Well, some of us are convinced it is time to ask consumers to pay something more. Some of us do not think that is an outrageous thing to ask. The Government support has gone up sevenfold and even eightfold, and still we have record farm failures. And some of us believe we are going to have to look to the consumers of this country and ask them to help with the situation, expect them to pay a little more. They are paying less than any other consumers in the world by a long shot.

I just came back from a series of meetings, agriculture meetings in Europe. It is very interesting what I heard there. Our administration is saying do away with all subsidies by the year 2000, but the Europeans have absolutely no intention of doing away with all subsidies by the year 2000. They made that very clear to me because they see the tremendous swings in prices in agriculture and they say government ought to play a role, and I think there are others of us who believe that as well.

And I want to thank you on behalf of the farmers of my State and, in fact, all the people of my State because you have been somebody that held out a hand of hope. And, John, you have done it as well. That is terribly important because, without hope, there is not the will to fight, and that is what it is going to take.

Thank you, Mr. Chairman.

Senator MELCHER. Senator Harkin, would you like to ask something?

Senator HARKIN. If I may, I would like to ask a question of both Willie and John.

First of all, I want to make a point, Mr. Chairman. Farm Aid has set up over 40 rural hotlines. They have also set up 46 emergency food distribution centers, 44 crisis prevention and outreach centers, 2 legal assistance and training programs, and several self-help projects. And they have done it all by keeping their administrative costs below 2 percent. I think that is remarkable.

I just want to ask both of you, are the people who run Farm Aid and the distribution programs, are they still getting calls and requests for help? Has there been any tailing off of that? What is the situation now with the finances of Farm Aid, and do you foresee doing any other performances or something to try to raise more money to help troubled farmers through the next winter?

I would like to know what is happening. Do you feel the requests are still coming in?

Mr. NELSON. Well, talking with the hotlines around the country over the past couple of years, the calls haven't slowed down. In fact, the calls are picking up as more and more people need assistance and need advice and need help. These people will tell you that the phone is hot, people are calling all the time wanting advice.

Of course, what Farm Aid is doing now, we are still trying to keep the attention on the problem. We are planning another Farm Aid in September. We have tentatively scheduled September 19 in Lincoln, Nebraska, providing we can work out all the problems there, and they seem to be disappearing.

But the main thing is that the problems still exist. We still need to have Farm Aid. We still need the money to get, like you say, some of those farmers through the winter. A lot of those guys don't have the money to buy a loaf of bread. They have a freezer full of meat but no money to go to the grocery store, and this is not right.

I think at one point something has to be done to change this. You guys know what it has to be. They need more money for what they are doing. It's very simple. They are not getting enough money for their product. Where that money comes from, who knows? You guys tell us, tell them. But they have to have that money.

Senator MELCHER. As I say, that point is exactly right. There is not enough money going to the farmer for their products, and that is what this subcommittee is all about, and we haven't done too good a job so far. We had better improve on it and we had better do it right now.

I want to thank you both very much, Willie and John, for participating in this hearing this morning. We ask you to just continue what you are doing, because you are doing a magnificent job in voicing the hope and the rather desperate hope at times of many farmers; but we can make it better, and you give them the understanding that we do care. We appreciate that very much.

Thank you both.

Our next witness is the Honorable Jim Nichols, Minnesota Commissioner of Agriculture.

STATEMENT OF JIM NICHOLS, COMMISSIONER, MINNESOTA DEPARTMENT OF AGRICULTURE, ST. PAUL, MN

Mr. NICHOLS. Mr. Chairman, I will try to keep my remarks brief in the interest of time. There are two other witnesses I know that are waiting.

Thank you for having me here today. It is good to see Tom Harkin, glad to see you Senators here.

Let me start by saying a couple of things about why the crowd is leaving. My distinguished Senator, Senator Boschwitz, has left.

We can talk about what the farmers want forever and always give facts to support our position, but what we would like to see is farmers get a chance to vote on this. If you guys had polls which indicated forever what you are doing in the polls and didn't have an election, we wouldn't have much of a government.

Tom, you have had an election and, Senator Boschwitz, you have had an election when we elected you. That is only partially true. We have 100,000 farmers in Minnesota out of 4 million people. So a lot more people than farmers voted for Senator Boschwitz, and I only think it is fair to let farmers vote. Union workers vote to ratify contracts, stockbrokers get to vote whenever there is a major move in the market. It is a system of democracy and justice we have had for many, many years. I think it is only fair to let the farmers vote.

Finally, Senator Boschwitz, if he really thinks farmers believe in his program for decoupling, which I think is ridiculous, but I only have one vote, then let them vote. What's his fear? He has consistently refused to let the farmers vote, and the issue of the Harkin bill is whether or not we get to vote.

We are not asking you to implement the Harkin bill. We are asking you to let the farmers vote. Only if the farmer has a vote will the Harkin bill go into effect.

Finally, Senator Bond talked about exports. I believe in exports. I am a farmer. I believe in it more than anybody, but the way to get exports is not by lowering the domestic price of grain. The way to get exports is when we can reach an agreement with our competitors.

An export program that works is bonus bushels. That has, you know, been a very, very successful program, very popular with farmers and the grain trades. It is the one thing I have seen that farmers in the grain trade agree on.

Let me just paraphrase from my remarks here. I remember when President Reagan was running for office. He said he was going to make three promises. One, we are going to cut Government costs. Two, we are going to increase farm exports, and three, we are going to increase farm income. I wasn't sure how he was going to increase farm income, but probably it is like balancing the budget. But the truth is farm exports have declined by 40 percent from $44 billion in 1980 to $26 billion in 1986, and farm subsidies have increased by 500 percent to $30 billion per year. We never spent more than $6 billion in farm costs and, you know, we are spending $30 billion now. President Reagan has spent more than the combined administrations of every President since Franklin Roosevelt, and despite that massive Government spending, we are still going broke.

Now, you people try and tell us it is working. The farmers are not revolting now. Of course we are not. Every time I go to the mail box, a PIK certificate falls out. I don't even know what I am getting them for any more. You are just throwing money at us to keep us quiet, but we all know what is happening. You guys have to cut spending by at least $1 billion. In budget reconciliation, you have no choice. This massive Government subsidy program has got to come to an end.

The Harkin bill, our goals were exactly the same as the goals of the President. We wanted to increase farm income, cut Government costs, and increase farm exports. Our goals are exactly the same. The question is how do we achieve those goals?

In fact, I always felt our program is much more conservative and more market oriented than the program that the Reagan administration has pushed. We want to eliminate all Government subsidies. We want to get it all in the marketplace.

I view the coupling as welfare and it always astounds me that Senator Boschwitz, whom I voted for, I might add, so he can't say I am criticizing him unfairly, he wants to put us on welfare with the coupling. The conservatives want to put us on welfare and give us bigger welfare checks.

I come to the Congress and see the liberals trying to cut Government subsidies and the conservatives fighting to keep them. You want to ask why and who do they represent.

Cargill, a Minnesota company, their profits were $408 million, the best year they had since 1973. Where do they make their money? It is in storing this huge surplus. They are in corn fructose. They love the sugar program because this keeps the sugar at a reasonable level, not high, and they buy my corn at a buck a bushel. The winners of the current program are the processors, the Cargills of the world. The losers are the taxpayers and the farmers.

They are the big losers, and there is a better way to accomplish the same goals, and that's what we are trying to ask you to address here today.

I am going to skip most of my remarks here because we are out of time. Let me just address three issues that are always used against the Harkin bill: consumer prices, livestock prices, and dairy prices.

In 1973, Mr. Chairman, I was selling wheat for $4 a bushel, actually over $4 a bushel. At that time, a loaf of bread cost 49 cents. Last year, I sold my wheat for $2.20 a bushel, and a loaf of bread cost 99 cents. They cut my price of wheat in half and doubled the price of a loaf of bread, and they come here before this subcommittee and tell you we can't raise the wheat prices because the bread will go up.

I imagine Bill Lescher is sitting in the back of the room, and he is well paid to be here. When these guys come before you, I don't blame Cargill and Bill, and he gets well paid, and Cargill, I understand why they want to continue the current farm program. It doesn't even bother me when they spread some figures way out. What really bothers me is that some Members of Congress are dumb enough to believe what they come out here and tell you, that we can't raise the price of grain because the consumer prices will go up. Consumer prices went up to 3 percent last year. They always go up. But, fortunately, because our expendable income goes up, we have a continuing decline in the amount of dollars the consumer has to spend for food, and that is probably why the consumer does not complain.

LIVESTOCK PRICES

Right now 62 bucks for hogs, yesterday about 72 for cattle. Good prices. We are making money, but you know what our greatest fear is as livestock producers? Cheap grain, because every livestock producer knows that cheap grain is going to drive down the price of cattle and hogs because you are going to market your grain on the hoof. That is exactly what you are going to do.

You can get $4 a bushel if you want to put it through hogs, or you can sell it for $1.50 at my local elevator. Is it going to stay the same? I doubt it. If you look at the future prices, $62 hogs, a year from now $42 hogs. It will not last. The greatest favor you can ever do for the livestock producers is to immediately raise the price of corn to $3.50 per bushel. If you did that right now, cattle would stay at $72 and hogs would stay at $62.

You know who it would help the most, Mr. Chairman? Your State, Montana. When the price of corn got below the price of hay, when a ton of corn started selling for $48 a ton and a ton of hay is selling for $60 a ton, your grassland in Montana is worthless. You are out of business. And the real winners are the poultry producers because they cannot turn their chickens out on the grass, and that is why we have a tremendous increase in poultry production and virtually wiped out the cattle industry in your State.

And who are the chicken producers? Tyson, Cargill, the giants. I am not talking family farmers. You made a whole lot of people rich. You know who the big beef producers are? Cargill. They own

Excel Beef, 250,000 on feed. We only had 70,000 on feed in the whole State of Montana. ConAgra, 400,000 head on feed and 300,000 hogs. Occidental Petroleum owns IBP. One independent left, Swift. You talk about vertical integration and what is going to happen to the consumers. Four conglomerates, two of them grain companies, slaughter 80 percent of all the fat cattle in the Nation. Hogs and chickens are going to go that way because of the cheap grain prices.

The biggest thing against us in Minnesota as family farmers is cheap grain. Our edge was always the fact we could forage, chop silage, graze, pasture. Now you are crazy.

This subsidy is not a farm subsidy. It is a production subsidy. When you pay half the cost of production and the farmer does not cover his costs, he is still a loser. The people who get to buy at half the cost of production, they are the winners. Ultimately that is the consumers, and the Russians, I might add, the people we sell cheap grain to, but in the middle there are a lot of people being subsidized and those are the Cargills of the world.

I want to say one last thing here about milk prices. This is what is really important. We are a dairy State, and we are right next door to Wisconsin. You guys have decided right here in the Congress who survives and who fails in the dairy business by the way you set the price. You really hit us hard with that in the last farm bill, which I hope and trust none of you voted for. I am sure some of the other guys over here did.

Two months ago, $15.61 for milk in Florida and $11.59 in Minnesota. Last month, $14.76 in Florida and $11.21 in Minnesota. You have got a $4 price spread between the Florida price and the Minnesota price of milk. We are looking at another price cut in October and in January, and the administration would love to cut the price. They are going to do anything they can, and we are going to fight over the figures to see whether this comes down.

If our farmers in Minnesota got the Florida price, it would mean $20,000 more for the average farmer in Minnesota, $20,000 more for the same milk in the same cows, $430 million for our State of Minnesota, if we got the Florida price. We come and say to you we would like to have the Harkin bill which will raise the price of milk to over $15 and in the neighborhood of $16, and about $15.61 would not be a bad price, the Florida price. And you say to me we cannot possibly do that because the consumer will revolt.

As I always say to Senator Boschwitz, if you believe that, then get in the car with me and we will drive to Florida. I will buy the gas and we will see if we can catch the revolution in progress. [Laughter.]

It is not happening. You would think with $15.61 milk in Florida and $2.30 at the grocery store, they would be out there throwing rocks through the windows, maybe hanging a few dairy farmers.

The consumer will pay, and we need to get it from the consumer. You cannot extract it from the taxpayers. First of all, I do not think it is fair. Second, it is damn tough to get elected officials to raise taxes. They are too high already. And you guys are in the minority out here. You cannot get it from taxes. You can get it from the consumers, and what you have got to do is convince your colleagues to give us the vote.

Our real friends in Congress are the urban Congressmen. They vote for us all the time. Our enemies are the farm State guys. We have met the enemy, and it is us, the Farm Bureau. [Laughter.]

I used to be a Farm Bureau member.

I will quit, Mr. Chairman, I appreciate your holding this hearing. I do not know what to say to convince your colleagues because I know you are on our side, but some of you, such as Senator Heflin, have talked about marketing loans. We have marketing loans. It is called the PIK certificate. I raise corn. My market is the domestic market. 5.2 billion bushels I got to sell in America last year. I exported 1.2 billion bushels. What they want to do so they can export the 1.2 billion bushels is cut the price on all the corn I produce. I could sell it at a decent price for 5.2 billion bushels in the United States, but you do not let me do that. You cut the price on everything, so theoretically exports will increase and they have not. I do not care how much I can sell for at a loss. I want to know how much I can sell at a profit. That is pretty much what I am interested in.

And then worse than that, you encourage me to produce a surplus. We produced 8 billion bushels of corn. The market was slightly over 6. The most basic decision any business makes is supply management. If you cannot have a reasonable supply management, you are darn soon out of business and General Motors does not lose 50 million cars and then sell 10. They would be selling the cars for $2,000 bucks apiece. We need to have some supply management. That is the only role for the Government. We need your help in doing that, and this business about cutting the price to increase exports is absolutely ridiculous. We cannot negotiate an agreement. We must subsidize exports, and it is a lot cheaper to subsidize exports at a billion two bushels of corn than to subsidize 8 billion bushels of corn.

One last thing. I think Senator Boschwitz' aide is still here. I want to quote from the Congressional Record of April 29, 1987. Some people out here say, well, the consumer consumption of milk is up and is that not great? We did that because we cut the prices. You cut the prices all right. You cut over 10,000 bucks out of every dairy farmer in Minnesota. You cut the prices. But "since 1983, price supports have been cut $1.50, a reduction of 12 percent. * * *" In that same period, "prices have increased by 3.2 percent to consumers." That is as stated by Jim Jeffords, your colleague in the House of Representatives. [See page H 2811, April 29, 1987, Congressional Record.]

Cutting farm prices did not help the consumer. It has never helped the consumer. They are not getting a break. What you are doing is helping the Cargills of the world. That might be good for Boschwitz. He lives out there in Minnesota, but I do not think it is good for you.

[The prepared statement of Mr. Nichols follows:]

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OFFICE OF THE COMMISSIONER

90 W. PLATO BOULEVARD
SAINT PAUL, MN 55107

STATE OF MINNESOTA
DEPARTMENT OF AGRICULTURE

TESTIMONY BY COMMISSIONER JIM NICHOLS
MINNESOTA DEPARTMENT OF AGRICULTURE
THURSDAY, JUNE 18, 1987
U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION & FORESTRY
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION & STABILIZATION OF PRICES

During the 1980 campaign and throughout the drafting of the 1981 and 1985 farm bills, the Reagan Administration made three basic promises:

1) Cut government costs
2) Increase farm exports
3) Increase farm income

Unfortunately the Administration has failed on a massive scale to accomplish any of these goals.

The facts are that farm subsidies have increased 500% to $30 billion per year and this administration has spent more on farm subsidies than the combined spending of every administration since President Franklin Roosevelt. As farmers we now earn 50% of our income from a government check. The government has taken 2 million farmers who were earning a living in the 1970's and put them on welfare. Because the farmers are not revolting they call it a success. Of course we're not revolting. Every time I open my mail box a PIK certificate falls out.

farm exports have fallen from $44 billion in 1980 to $26 billion in 1986. Evidently none of the economists over at USDA have figured out that when you cut the price of corn in half you have to export twice as many bushels just to come up with the same dollars.

With the exception of the massive acreage reduction programs of 1983 and 1987 farm income has been hovering at Depression era levels since the 1970's. Average net farm income for the State of Iowa was $1,000 per year in 1985.

As an alternative to this debacle we propose the Family Farm Act. From the beginning the Harkin Farm Bill has had three basic points:

1) Cut government costs
2) Increase farm exports
3) Increase farm income

MINNESOTA GROWN
ENJOY THE HIGH QUALITY AND INFINITE VARIETY OF MINNESOTA FOODS

AN EQUAL OPPORTUNITY EMPLOYER

Although our farm program is more conservative and more market oriented than the Reagan approach, since it eliminates government welfare checks and relies totally on the marketplace for farm income, our goals are exactly the same. Only the results are different. We would cut government costs by eliminating all subsidies and implement a supply management program to avoid surpluses. We would increase exports through a bonus bushel program and increase farm income through a fair price in the marketplace.

I would like to commend you and the other members of Congress for having already enacted 2 of the 3 basic provisions of the Harkin Farm Bill. You have increased farm exports through the export subsidy program we called bonus bushels and you call Export Enhancement (EEP) and you have reduced surpluses through the Conservation Reserve Program - CRP (a priority item in the Harkin Farm Bill), and record acreage idling programs in 1983 and 1987.

Both of these programs need some fine tuning and you are working on legislation to do that. It does little good to increase exports to Yemen and Algeria while ignoring the Soviets and Chinese. It also does little good to take a record 83 million acres out of production in 1983 and plant fencerow-to-fencerow in 1982 and 1984.

I especially want to commend the Congress for introducing legislation to increase the corn loan rate in 1988 and prevent cuts in the wheat loan rate. Congressman Glickman, the author of the bill, correctly stated that "Our commodity loans effectively set the world floor prices for commodities." He added that increasing the loan rate for 1988 would save taxpayers "at least $500 million". If Mr. Glickman's Wheat and Feed Grains Subcommittee would go one step further and pass the Harkin Bill, the government could save as much as $20 billion per year.

It is not a question of if the Harkin bill will pass, it is a question of when. You have already passed two of the three major points and by increasing loan rates you are now at the heart of the Harkin bill.

In closing I want to address three issues often used in arguments against the Harkin bill: 1) Consumer prices, 2) Livestock prices, and 3) Dairy prices.

In 1973 I sold wheat for $4.00 per bushel and a loaf of bread cost 49 cents. Last year I sold my wheat for $2.20 per bushel and a loaf of bread cost 99 cents. The grain millers cut my price of wheat in half while doubling the price of a loaf of bread, and now they have the gall to tell me that wheat prices can't go up because consumers would have to pay more for bread.

In the livestock sector cattle and hog prices are currently at high levels. If we could keep them at these levels the industries will remain healthy. Unfortunately, we all know that livestock prices will fall as cheap feed encourages farmers to market their grain on the hoof. Cattle and hog farmers are smiling now, but they all live in fear of the future because they know that cheap feed will eventually mean cheap meat. The greatest favor you could do for the livestock industry is to immediately raise the corn price to $3.50 per bushel.

Montana would be a real winner because grassland and hay land would have some value. When corn is selling for $48 per ton and hay for $60 per ton Montana is out of business. Montana has 70,000 cattle on feed in the entire state. Cargill has 250,000 and ConAgra has 400,000 on feed. Who does the National Cattlemen's Association really represent when they lobby for cheap feed?

Finally, I must address the issue of milk prices. Last month by order of the Federal Milk Market Administrator, Florida producers currently receive $14.76 per cwt. and Minnesota farmers currently receive $11.21 per cwt. Congress has decided to force dairy farmers in the Midwest out of business and increase production in the Southeast by paying those producers nearly $4 per cwt. more for their milk. There are some who say that we cannot raise the price of milk or consumers will revolt. The truth is that consumer dairy prices went up last year despite lower farm prices and on average all consumer food prices went 3% last year. To those of you who believe the consumer will revolt, come with me to Florida and we will see if we can catch the revolution in progress.

Senator **Melcher**. Thank you very much, Commissioner Nichols. You were very forceful and emphatic. I know that you believe, as I do, that cheap grain prices are a death for cattle feeders and dairy farmers. I do not think we can get away from that. The cheap grain prices have been devastating.

Senator Daschle.

Senator **Daschle**. I just compliment you, Jim, on your excellent testimony. I just wish that everyone who was here to hear the earlier testimony, which was excellent, could have been here to hear yours because it is a message that does not get out enough and it ought to. It is rational, and it may be acerbic, but it is rational. I appreciate your refreshing candor. Thank you for coming.

Mr. **Nichols**. You know, it is so rational. The question is not if the Harkin bill will pass. The question is when. You have already passed two of the three points. We came here and we asked for, first of all, a fair price. We do not have that yet. Second, we asked to subsidize exports, and, third, for supply management. We now have what we call bonus bushels, EEP which has been phenomenally successful despite the best efforts of the administration the program has worked. We have the Conservation Reserve Program and again, thanks to George Dunlop and others over at the Administration who tried to torpedo that, that has worked very well.

We need supply management. We took 71 million acres out of production. The problem is one year we take half the land out of production and the next year we plant fence row to fence row, and it is the wild swing in production which is really hard on the guy on Main Street.

In 1983, and they announced that program January 11, 1983, all of the guys had ordered in their fertilizer, and they took 83 million acres out of production.

They are against supply management. They have implemented the biggest, costliest, supply management program in history, the PIK program. It is unavoidable. We will have supply management. You cannot avoid it. The question is whether you are going to do it intelligently every year or you are going to do it like that bunch of idiots do it which hurts the guys on Main Street worse than the guys on the farm.

Finally, this budget reconciliation, to me that is a great opportunity. You have got to cut costs. I have been going over to Dan Glickman asking him to raise the loan rates. He was against that. Finally, he comes in with a great bill because it saves, interestingly enough, $500 million, so he is bringing in a bill to raise the loan rate to save money. It is a hell of an idea. I am glad he thought of that.

You guys are going to do the same thing, but it is painless. I have been in elective office. Painless bills tend to pass. The best way to save $1 billion is to raise the loan rate.

Senator **Melcher**. Senator Conrad.

Senator **Conrad**. Glad to have you here, Jim. Somehow I think that you know sitting here I started out 31 points behind in North Dakota. Nobody gave me a chance. You did and a few friends.

Mr. **Nichols**. I was skeptical, but I sure was open. [Laughter.]

Senator **Conrad**. Tom here, he had faith, and ol' Daschle, he started out ahead down there. But I just came back from Europe.

Tom was just telling me about some of the testimony that occurred before I came in. Tom was there with me. I am amazed to hear anybody saying that the Europeans are going to do away with their program. It is not going to happen. I have just had at least 12 meetings in Europe, meetings with the President of the European Parliament, meetings with the chief negotiators in the GATT Round for Europe, meeting with all the French farm organizations, spending an afternoon with a French wheat farmer, with the head of the French wheat growers. I have met with just about everybody. I have met with an adviser to President Mitterrand on agriculture.

They have no intention of doing away with their basic structure. No intention. They think very clearly that agriculture must have Government involvement in order to smooth out the swings. You know what their structure is. They have an internal price, a higher internal price. They subsidize exports, and do you know what they are interested in doing next? They are interested in getting together with us and the other major producers. For what purpose? Supply management.

I tell you the word that we are getting from the administration, the suggestion that we are going to do away with all subsidy by 1990 or by the year 2000—1997 is, I guess, their latest thing yesterday, by the year 2000—they are playing in a game all alone because the Europeans have no interest. They think it is daffy, very polite about it, but they frankly think it is daffy. And I do not care if you talk with a conservative from England, a member of Margaret Thatcher's party, or talk to a Socialist from France. They all think it is a daffy notion. They have no intention of doing it.

So the question becomes how do we put together a package here that has, one, a chance of passage because if we do not pass something you know we are just wasting our time; and, number two, if the President vetoes it, that is another matter. Our obligation is to put something on his desk.

My feeling is after this set of hearings and all the rest I have heard that a package which includes the following might have some chance.

One, we go to a higher domestic price, ask our consumers to pay a reasonable cost of production, plus a reasonable profit. This is not an unreasonable request. This is what we do in all industry in America. We ask for a reasonable cost of production, plus a profit. Agriculture should be no different. Number two, that we subsidize exports, at least some part of our exports; and, three, that we target by, at some level of production, putting ourselves on the world market and ask the Europeans to do the same; and, fourth, that we ask for an international meeting, a summit conference of the major producers for the purpose of entering into supply management worldwide. We have a worldwide problem that cries out for a worldwide solution.

I would be interested in your notion of that kind of approach.

Mr. Nichols. It sounds tremendous and I spent 3 weeks in Europe at the request of the Europeans this winter, and my observation was exactly the same. I want to commend you and Tom for going. You know, you come back and President Reagan gets on TV and after having talked to all the same folks he talked to, I am thinking either that guy was nodding off more than I thought, or they are telling different stories here. You are absolutely right. They have a strong internal price. We call it subsidy. It is not. They get it from the consumers, but they subsidize exports aggressively. I wish Senator Boschwitz was here. We lost the sale to the Russians. Now we are selling. The administration finally relented, but we could have sold this wheat last year. You will recall the price was $105 a ton, and the European price was $201 a ton. They made the sale, and we did not.

A farmer coming in and their price is twice what mine is, you would think I would have a sale, but they do not. They call it restitution by taxing the stuff we bring in below cost. We help them do that. It is incredible.

Keep telling your story here. Get your other colleagues to meet, and we will bring the Europeans to meet with your colleagues. We have got to be sensible, and the real losers are the Third World. That is who we are really hurting with our farm policy. They are the real losers.

Senator CONRAD. I have never been a farmer, and I have a master's degree in business administration. I have never yet seen an industry that cuts price to prosperity. Have you ever met with a business leader who said, you know what we are going to do to get this industry to success? We are going to cut price, we are going to cut it 30 percent, we are going to cut it 40 percent, cut it in half. That is not what I learned in business school.

Mr. NICHOLS. It is always interesting that Cargill, a big exporter, when they bid to tender, they bid at a profit. If they do not get to sell at a profit, they do not give the bid. They somehow come and tell you guys that we all must sacrifice so we can increase exports, and the taxpayers have got to pay for it and the farmers, a few more are going to go under. And the people that benefit the most, they do not sacrifice, and they understand that basic principle of business.

Very well. I commend them for that. What I do not like is for them to come and lobby and cut my price. I resent that.

Thank you, Mr. Chairman.

Senator MELCHER. Senator Harkin.

Senator HARKIN. Thank you for the opportunity to say thanks, Jim, very much for keeping up the good fight. You have always been in the trenches. You are a strong advocate, and I just want to compliment you. Hang in there and keep up the fight. I really appreciate it.

Mr. NICHOLS. Some days it is hard, but other days it is fun.

Senator HARKIN. Common sense will prevail.

Mr. NICHOLS. Yes, it will.

Senator MELCHER. Our next witness is the president of the National Save the Family Farm Coalition. More than that, she is an old friend of mine. Helen Waller is a hands-on farm and ranch operator in Montana.

Helen, I am very pleased to welcome you here to the subcommittee hearing.

STATEMENT OF HELEN WALLER, FARMER/RANCHER, CIRCLE, MT, PRESIDENT, NATIONAL SAVE THE FAMILY FARM COALITION

Ms. **Waller**. Thank you, Senator Melcher, and members of the subcommittee, for the opportunity to testify here today.

As Senator Melcher said, I am a farmer/rancher from eastern Montana and also president of the National Save the Family Farm Coalition.

Continuing farm foreclosures and the economic and social destruction of rural America speaks clearly of the need for new direction in farm policy.

There is strong support throughout the country for preserving the family farm system of production agriculture, but farmers throughout the country are trying desperately to hold on to their land and to pay their bills, but the present farm program, by design, makes it increasingly difficult, and as deficiency payments are phased out, conditions can only get worse.

Over the past 5 years, on the average, farmers realized a return on equity of minus 13.4 percent, while, according to Forbes, food processors have averaged a return on equity of up to 33.4 percent. No other industry in America is at such a bargaining disadvantage in the marketplace as farming. Therefore, it is essential that fair price support levels be legislated into a new farm program.

It is encouraging that both the Senate and the House are considering farm credit legislation. This is essential since borrowers must have some assurance of continued financing for operating, but unless the problem of low prices is addressed, credit bail-outs will be an annual event. The only way to restore stability to rural America is to establish realistic price support levels which will allow farmers to pay back their loans. Financial institutions will never be stable until borrowers become profitable.

That is why, if we intend to preserve the family farm system, it is essential to raise loan rates on storable commodities and dairy products to levels which will reflect the cost of production plus a reasonable profit.

The Family Farm Act is based on that principle, through the establishment of loan rates founded on the parity concept. And, further, it requires that if Congress is willing to establish realistic support price levels, then we as farmers would be required to produce only quantities of grain which would satisfy a determined demand.

I would like to correct some misinformation which is passed around indicating that the supply management provision in the bill is the mechanism which would move the price upward. That is not true. The loan rate establishes price and historically has done so. This occurs because the legislated price supports offer the only competition that the grain trade has to meet in order to buy our grain. They only have to meet that legislative price and nothing beyond that, and they know they will get our grain.

The supply management portion of the bill, which requires approval by a producer referendum, simply restricts the production of commodities to an amount which would meet domestic, foreign, humanitarian and reserve requirements, but is produced under a full compliance program that would prohibit those needs from being satisfied outside the program, causing massive forfeiture of grain to the CCC. Supply management is an essential component of the act, which serves to eliminate costs to the U.S. Government for handling and storing excess grain.

One of the most dangerous results of the Food Security Act of 1985 is the concentration of liquidated farm and ranch land into fewer and fewer hands. As thousands of farmers and ranchers are displaced and rendered homeless, their land is being bought up by corporations, insurance companies, and wealthy investors.

The livestock industry which provides the market for ranchers' cattle and calves is becoming increasingly concentrated. A handful of feedlots buy and fatten most of the calves, a handful of grain companies supply most of the feed, a few beef packers slaughter most of the fat cattle, and a couple of these companies dominate all aspects of the beef production.

Corporate giants such as Cargill, Continental Grain and ConAgra are taking full advantage of taxpayer subsidized, below-the-cost production of grain prices by expanding their interests in beef production and processing. Even the most efficient family sized feeders and grain producers cannot possibly compete with the corporate giants who buy cheap grain. In essence, the taxpayers are subsidizing the input costs of the corporate livestock feeders.

The Family Farm Act would raise the price of grain back to the cost of production, which, in turn, would give smaller, independent feeders a chance to compete on an equal basis with the giant grain company subsidiaries. Also, raising the price would halt monopolization in the feeder calf market and attract new competition, giving ranchers more options for marketing calves. Cheap grain makes cheap cattle.

In closing, I want to emphasize that conceptually the Family Farm Act was drafted by farmers as a result of hundreds of meetings throughout the countryside.

I urge you to support the Family Farm Act, which is the only alternative program capable of easing the budget while restoring economic stability to rural America. Our time is short. The 1985 farm bill is an historic and damnable disaster for rural America—the most expensive and least effective farm program ever legislated. American farmers and ranchers are being artificially propped up like rag dolls by Government transfer payments that bleed the taxpayers and fatten corporate hogs feeding at the Government trough. The desperation of farm and rural people is deep rooted and growing, and their systematic removal from the land will not be quietly tolerated.

I thank you very much.

[The prepared statement of Ms. Waller follows:]

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TESTIMONY OF HELEN WALLER, FARMER/RANCHER, CIRCLE, MONTANA

PRESIDENT

NATIONAL SAVE THE FAMILY FARM COALITION

BEFORE THE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICE,

OF THE

COMMITTEE ON AGRICULTURE, FORESTRY AND NUTRITION

UNITED STATES SENATE

JUNE 18, 1987

Thank you, Mr. Chairman and members of the committee, for the opportunity to testify here today.

Continuing farm foreclosures and the economic and social destruction of rural America speaks clearly of the need for new direction in farm policy.

There is strong support throughout the country for preserving the family farm system of production agriculture. Last year's New York Times poll reflects a willingness of the American public to accept higher taxes and/or food costs in order to sustain the family farm structure.

Meanwhile, farmers themselves are trying desperately to hold on to their land and to pay their bills, but the present farm program, by design, makes it increasingly difficult, and as deficiency payments are phased out, conditions can only get worse.

Over the past 5 years, on average, farmers realized a return on equity of minus 13.4%, while according to Forbes, food processors have averaged return on equity of up to 33.4%. No other industry in America is at such a bargaining disadvantage in the marketplace as farming. Therefore, it is essential that fair price support levels be legislated into a new farm program.

It is encouraging that both the Senate and House are considering farm credit legislation. This is essential since borrowers must have some assurance of continued financing for operating, but unless the problem of low prices is addressed, credit bail-outs will be an annual event. The only way to restore stability to rural America is to establish realistic price support levels which will allow farmers to pay back their loans. Financial institutions will never be stable until borrowers become profitable.

That is why, if we intend to preserve the family farm system, it is essential to raise loan rates on storable commodities and dairy products to levels which will reflect the cost of production plus a reasonable profit.

The Family Farm Act is based on that principle, through the establishment of loan rates founded on the parity concept. And, further, it requires that if Congress is willing to establish realistic support price levels, then we as farmers would be required to produce only quantities of grain which would satisfy a determined demand.

I would like to correct some misinformation which is being passed around indicating that the supply management provision in the bill is the mechanism which would move the price upward. That is not true. THE LOAN RATE ESTABLISHES PRICE AND HISTORICALLY HAS DONE SO. This occurs because the legislated price supports offer the only competition that the grain trade has to meet in order to buy grain.

The supply management portion of the bill which requires approval by a producer referendum, simply restricts the production of commodities to an amount which would meet domestic, foreign, humanitarian and reserve requirements, but is produced under a full compliance program that would prohibit those needs from being satisfied outside the program, causing massive forefeiture of grain to the CCC. Supply management is an essential component of the Act, which serves to eliminate costs to the U.S. government for handling and storing excess grain. Farmers are saying, "Let us vote in a referendum to raise the price support levels to reflect at least the cost of production, and we will comply with the systematic reduction of excess stock". That's the trade-off.

This message is loud and clear throughout the countryside as support builds for the Family Farm Act. This position was confirmed by the positive results of the 1986 wheat poll, and by the 1500 delegates to the United Farmer and Rancher Congress held last September in St. Louis.

One of the most dangerous results of the 1985 Food Security Act is the concentration of liquidated farm and ranch land into fewer and fewer hands. As thousands of farmers and ranchers are displaced and rendered homeless, their land is being bought up by corporations, insurance companies and wealthy investors.

The livestock industry which provides the market for ranchers' cattle and calves is becoming increasingly concentrated. A handful of feedlots buy and fatten most of the calves, a handful of grain companies supply most of the feed, a few beef packers slaughter most of the fat cattle, and a couple of these companies dominate all aspects of beef production.

Corporate giants such as Cargill, Continental Grain and ConAgra are taking full advantage of taxpayer subsidized, below-the-cost-of-production grain prices by expanding their interests in beef production and processing. Even the most efficient family sized feeders and grain producers can't possibly compete with the corporate giants who buy cheap grain. In essence, the taxpayers are subsidizing the input costs of the corporate livestock feeders.

The Family Farm Act would raise the price of grain back to the cost of production, which in turn would give smaller, independent feeders a chance to compete on an equal basis with the giant grain company subsidiaries. Also, raising the price would halt monopolization in the feeder calf market and attract new competition, giving ranchers more options for marketing calves. CHEAP GRAIN MAKES CHEAP CATTLE.

In closing, I want to emphasize that conceptually, the Family Farm Act was drafted by farmers as a result of hundreds of meetings throughout the countryside. Farmers have had an active role in bringing forward the language in this bill. It exemplifies a spirit of willingness to reduce taxpayer liability through elimination of deficiency payments, in exchange for a fair price at the marketplace. We believe that the cost of farm commodities should be borne by those who take possession of, resell, or process that commodity.

I urge you to support the Family Farm Act which is the only alternative program capable of easing the budget while restoring economic stability to rural America. Our time is short. The 1985 Farm Bill is a historic and damnable disaster for rural America; the most expensive and least effective farm program ever legislated. American farmers and ranchers are being artificially propped up like rag dolls by government transfer payments that bleed the taxpayers and fatten corporate hogs feeding at the government trough. The desperation of farm and rural people is deep-rooted and growing, and their systematic removal from the land will not be quietly tolerated.

Thank you.

Senator Melcher. Thank you very much, Helen.

What comes through loud and clear is that farmers have gotten together and have said let us solve this problem, let us do it in a way that makes some sense, not just for today but for the long run. I commend you and the National Save the Family Farm Coalition for having aroused the countryside of America to action. I hope that this subcommittee will hear that message, and I hope that it will, indeed, put its best efforts forward in the coming weeks, not months but weeks, into developing the amendments necessary for the 1985 act.

Thank you very much, Helen, for what you have done and what you are doing. It is very much appreciated.

Our next witness and last witness will be Ernest Dubester, legislative representative for the AFL-CIO.

Please proceed, Ernie.

STATEMENT OF ERNEST DUBESTER, LEGISLATIVE REPRESENTATIVE, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, AFL-CIO, WASHINGTON, DC

Mr. Dubester. Good morning, Mr. Chairman.

I appreciate this opportunity to share some observations of the AFL-CIO on the farm crisis and to express our support for Senator Harkin's Save the Family Farm Act of 1987, S. 658.

Mr. Chairman, farmers and workers have a common belief that the greatness of this Nation stems in large part from the people who labor, whether they till the soil or whether they toil in the factory. The American farmers and workers have a strong mutual interest in an America where economic growth and social justice have a higher priority than more benefits for the wealthy and for large corporations. The family farmers and far too many workers right now are linked in the economic struggle to preserve and protect a way of life in the face of an economic crisis.

Mr. Chairman, I know you have heard the story of the economic collapse in agriculture, told time and time again. Unfortunately, I feel for too many people that story is minimized as something that is limited to a handful of farmers who overextended themselves in the 1970's. In fact, as I know you appreciate, Mr. Chairman, the farm crisis has dire consequences not only for family farmers and their families, but for entire rural communities and for the national economy.

That is why the AFL-CIO and other labor people have been working with the Rural-Urban Action Campaign in support of the Harkin-Gephardt legislation to produce fair farm prices and fair income for America's farm families.

That is why leaders from the AFL-CIO's state delegations, including the State of Montana, Mr. Chairman, have been working with farmers, have been talking to Senators, elected Representatives from the other body, and have joined not only with farmers but also with consumers, teachers, and other community leaders to bring to Washington their grassroots support for effective family farm legislation.

That is why the AFL-CIO President, Lane Kirkland, has called on Congress to pass a new family farm and food policy law that incorporates a strong supply management program along the lines of that contained in Senator Harkin's bill.

Mr. Chairman, the economic tragedy faced by family farmers has serious consequences for other parts of the economy and for American workers and jobs, particularly in farm-related industries.

We know there are six jobs in food and fiber-related occupations for every farmer on the land. In fact, they estimate over 20 percent of all American jobs is tied to the production, distribution, and purchasing of food and fibers.

Unfortunately, farm prices and farm income are down, and America is suffering massive losses of farms and massive losses of jobs in businesses related to the farm economy.

One study from Iowa State University indicates that the financial stresses in the agricultural system right now have caused the loss of over 300,000 jobs. That is between 1977 and 1984, and we see tens of thousands of other jobs that have been lost in the last 3 years.

One good example of a connection between the farm crisis and jobs is the agricultural implement business. Obviously, with neither income nor collateral, farmers cannot purchase farm equipment or the other fruits of workers who labor. During the last 6 years, over 65,000 workers in the agricultural implement business have lost their jobs, probably forever. This represents a 62 percent decline of the employee complement in that business. An area that has been particularly hard hit is the area of Fargo, North Dakota, Senator Conrad's State. Not too long ago, there were over 2,000 employees working in several plants in that area which manufacture farm-related equipment. Now, according to statistics that we have heard, that figure is down to a little over 200—about a 90 percent decline.

Senator Harkin's State has similar experiences of course. I indicate in my prepared statement even where workers in farm-related industries have been able to hold on to their jobs and keep plants open, they have usually done so only through the sacrifice of taking severe cutbacks in wages and benefits. For example, at Des Moines, Iowa, the Firestone Tire Company, a leading producer of tractor tires. Since 1982, the employees there have had to take three fairly considerable wage cuts as a sacrifice to keep the plant open, and I might add that, before 1980, over 2,600 employees were working in that plant, whereas today, there are only about 900, again a two-thirds reduction in the employee complement.

Mr. Chairman, American workers depend on American farmers to buy what the workers produce and, obviously, if farmers cannot earn a living, they cannot do that. So a devastated farm economy can only harm all American workers. We believe, as others have expressed today, that farmers should have a direct voice in shaping the program that will determine their economic future, and that is why we support the proposal in the Harkin bill for a nationwide referendum by farmers to vote on the program and the mandatory supply management it will take to make the program work.

The FAPRI group of Iowa State estimates that the reduction in group production that is necessary to reach a more reasonable level, such as that contained in the Family Farm Act, will raise farm income by an average of 70 percent in the next 10 years. We also like the proposal in the bill that would target the benefits to small and medium sized family farms so that a few large agribusinesses or corporate farmers do not get the major share of the benefits from this program.

Also, with the end of Federal farm subsidies, that would be a likely result if measures similar to that contained in Senator Harkin's bill are enacted, resulting in the tens of billions of dollars that could be saved to taxpayers over the next 7 or 8 years, we could use those moneys in more effective ways, and we could save on social programs.

So we in the labor movement, Mr. Chairman, are convinced that a healthy agricultural system based on a strong and prosperous family farm is essential to America's economic and social well-being.

So we urge you, and I know you appreciate this problem very well, but the entire Agriculture Committee to expeditiously consider the near depression conditions facing the American family farmers and to move quickly on new farm policy or programs such as that contained in the Harkin Save the Family Farm Act.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Dubester follows:]

87-27

TESTIMONY OF ERNEST DUBESTER, LEGISLATIVE REPRESENTATIVE, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, BEFORE THE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES OF THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY, ON S.658, THE FAMILY FARM ACT OF 1987

June 18, 1987

Mr. Chairman, I appreciate this opportunity to present the views of the AFL-CIO in support of S.658, the Family Farm Act of 1987.

Farmers and workers have a common concern, a strong mutual interest in an America where economic growth and social justice have a higher priority than more tax loopholes and more benefits for the wealthy and for the big corporations. In addition, the crisis in American agriculture has a direct bearing on American workers and jobs.

That is why the AFL-CIO is working with the Rural-Urban Action Campaign in support of the Harkin-Gephardt legislation to produce fair farm prices and fair income for America's farm families.

That is why labor leaders from farm state AFL-CIO labor federations have joined recent fly-in campaigns along with farmers, consumers, teachers, religious leaders and other community leaders to bring to Washington their grass-roots support for effective family farm legislation.

And that is why AFL-CIO President Lane Kirkland has called on Congress to pass a new family farm and food policy law that incorporates a strong supply management program.

We in the labor movement are convinced that a healthy agricultural system based on strong, prosperous family farms is essential to America's economic and social well-being. The United States cannot and must not depend on an agricultural system dominated by wealthy tax-loss, tax-shelter seekers, by giant agri-business and food conglomerates.

One-third of the nation's 600,000 family-sized farms are in serious trouble. About 400,000 family farms have been forced out of business in the last six years.

The value of U.S. farm assets in 1987 is down by a third from the $1 trillion peak of 1980-81. U.S. farm land values, which have dropped by almost $300 billion since 1981, are projected to drop another 7 percent in 1987. And a GAO report states that, if the 1985 farm law is not changed for the better, net income of American farmers will go down by $10 billion, about 35 percent, in the next four years.

With farm prices and farm income down, America is suffering massive losses of farms and massive losses of jobs and businesses related to the farm economy. We know that there are six jobs in food and fiber-related occupations for every farmer on the land. Indeed,the Department of Labor estimates that one in every five American jobs is tied to the production, distribution and purchasing of food and fibers.

However, the economic tragedy faced by family farmers has serious consequences for other parts of the economy and for workers in farm-related industries. The decline in farm income and farm land values has drastically affected the fortunes of farm equipment makers, chemical companies, fertilizer manufacturers, transportation companies and an array of other businesses that rely on the purchasing ability of farmers and ranchers.

A good example of the interconnection between the farm crisis and jobs is the agricultural implement business. With neither income nor collateral, farmers cannot purchase farm equipment. During the last six years, over 65,000 workers in the agricultural implement business have lost their jobs, probably forever. This represents a 62 percent decline. Thousands more have suffered repeated layoffs.

Government figures for all workers in the industry reflect this trend. Employment in the farm machinery industry in December 1986 was only 35,600. This is 81,000 workers fewer than in 1979.

One area in particular which reflects this decline is Fargo, North Dakota. Recently, there were over 2,000 employees working in several plants which manufacture farm-related equipment. Now, that number has been reduced to a little over 200--about a 90% decline. One company seriously affected is the Steiger tractor company which has lost over 2/3 of its employees in the last five years.

Even where workers in farm related industries have been fortunate to retain their jobs, they have done so only through the sacrifice of dramatic cuts in wages or benefits. For example, at the Des Moines, Iowa plant of the Firestone Tire Company, a leading producer of tractor tires, workers have taken three wage cuts over the last five years in order to keep the plant open. These cuts represented about a 35% reduction in the hourly wage rate and created considerable hardships for the affected workers and their families. It must be added that, before 1980, over 2,600 employees worked at this plant. Today, there are only about 900 employees, a nearly 2/3 reduction in the employee complement.

In addition to its impact upon workers and jobs, the plight of the farmers affects entire rural communities. When farm income drops as precipitously as it has over the last few years, all rural businesses suffer. Farm communities suffer as retail sales fall and customers cannot pay on their accounts. Lenders are affected as farmers cannot meet their loan payments. The total uncollectible debt has been estimated to range between $25 and $50 billion. Indeed, farm banks accounted for nearly half of the more than 125 U.S. bank failures in 1986. This is compared with only 10 failures nationwide in 1981.

Nor do consumers benefit from low farm prices. In general, farmers get only 25 cents out of each $1 spent by consumers for food.

We know that some opponents of the Harkin family farm bill, S. 658, claim that this legislation will result in higher prices to consumers and therefore is anti-consumer. In our view, this claim is misleading.

We in the labor movement are very much concerned about protecting and advancing the welfare of consumers because the millions of union members and their families comprise a large part of the consumer public. We know, however, that U.S. consumers pay a smaller percentage of their total income for food then anywhere else in the world. We also know that low prices are not necessarily the measure of the costs or the benefits of economic policy.

For example, in 1974 wheat was $4.25 a bushel and a loaf of bread cost 49 cents. In 1986 wheat was $2.25 a bushel and a loaf of bread cost 99 cents. Similarly, in 1981 a bushel of corn was $3.19 and a 12-ounce box of cornflakes cost $1.09 a box. In 1987 farmers are getting $1.50 a bushel for corn and cornflakes are selling for $1.15 a box. It is clear that cost increases for food to the consumer are not directly linked to farm commodity prices received by the farmer.

It is also clear that lower prices and lower farm income bring havoc and desolation to America's farm economy and to America's farm families. Allowing farm policy to continue on its current path would be even more costly. Billions in public funds are spent on buying and storing surplus commodities and providing farm subsidies. Social service spending to aid farm families facing economic difficulties brought about by the crisis should also be taken into account.

American workers depend on America's farmers to buy what the workers produce. A devastated farm economy can only harm all American workers and be far more costly than a penny a loaf increase in the price of bread.

We believe farmers should have a direct voice in shaping the program that will determine their economic future. That is why we support the Harkin-Gephardt proposal for a nation-wide referendum by farmers to vote on this program and the mandatory supply management it will take to make the program work.

Likewise, we support the targeting of benefits on small and medium-sized family farms so that a few large agribusiness firms do not get the major share of the benefits from this program.

Mr. Chairman I appreciate this opportunity to present the views of the AFL-CIO on the farm crisis in our country today and to express support for S.638, the Family Farm Act of 1987. We urge the Agriculture Committee to take favorable and expeditious action on this bill and the depression conditions existing today in American agriculture. Thank you.

Senator **Melcher**. Thank you very much, Ernest.

I see a trend going on in this country that I very much fear. I see the loss of income and purchasing power of farmers and ranchers throughout the United States. We watch rural communities dry up. At the same time, I see a trend nationally for lower and lower wages. In fact, most of the new jobs that are spoken of in statistics, are very low paid, minimum wage in many cases. Also there is the deplorable situation where the income of young people on the first, second, third or fourth child is often very low and certainly not of sufficient amount to support a family.

That type of trend is not American. It is not for Americans and it is something we shouldn't tolerate.

To make a change for agriculture, rural America, for young people, we are going to have to have all the muscle and strength that can be gathered together.

The AFL-CIO cooperating at this stage in the program for agriculture is most appreciated. I want to thank you for that. I have long realized that our lives are intertwined, whether we are on the farms or on the ranches or in rural communities or metropolitan areas, whether we are making our living off of the land or agribusiness, or in the production of any one of our factories, in any type of job. Our lives as Americans are intertwined and we go forward together.

When a big segment of us slip, we all slip.

Thank you very much, not only you personally, but also to the AFL-CIO, for your assistance in our endeavors. We very much appreciate it.

Mr. **Dubester**. Thank you, Mr. Chairman.

I am sure we will continue our work in this area and in other problems facing our country. Thank you.

Senator **Melcher**. Thank you very much.

We will place in the record, without objection, the prepared statement by the National Grange and the prepared statement by Prairiefire.

The subcommittee record will be held open for additional statements for 2 weeks for anybody who would care to submit written testimony to the subcommittee.

The subcommittee is adjourned.

[Whereupon, at 12:05 p.m., the subcommittee was recessed, subject to reconvene at 10:10 a.m., Tuesday, June 23, 1987, in room SR-332, Russell Senate Office Building.]

[Material submitted for inclusion in the record follows:]

WRITTEN STATEMENT OF THE NATIONAL GRANGE
SUBMITTED TO
THE AGRICULTURAL PRODUCTION AND STABILIZATION OF
PRICES SUBCOMMITTEE
OF THE
SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE
UNITED STATES SENATE

JUNE 18, 1987

RE: "SAVE THE FAMILY FARM ACT" (S. 658 HARKIN/
GEPHARDT MANDATORY PRODUCTION CONTROLS)

Mr. Chairman, members of the Subcommittee, the National Grange is pleased to submit for the record concerns regarding mandatory production controls. The National Grange, which is headquartered in Washington, D.C., was founded in 1867 and, today, represents over 365,000 members in 42 states. The Grange is a general farm organization; therefore, we analyze agricultural policy as it impacts all of agriculture and rural America, not just how it effects commodity programs.

Mandatory production controls and marketing quotas are being proposed as an alternative to current farm programs. The Grange does not believe that mandatory controls and marketing quotas are acceptable alternatives to the current farm programs. We share some of the objectives of proposed legislation that provides for mandatory production controls and marketing quotas, but we believe that the disadvantages of the provisions far outweigh the advantages. We further believe that there are other policy alternatives before this Committee and Congress that can obtain these objectives without the disadvantages we, and others, see in mandatory production controls.

Mr. Chairman, before making specific comments regarding the Harkin/Gephardt mandatory production control legislation, we would like to point out what we believe is a fundamental flaw in this approach to agricultural policy.

In a 1984 Congressional Budget Office (CBO) study entitled "Crop Price Support Programs - Policy Options for Contemporary Agriculture", several policy options were analyzed, including mandatory production controls and marketing quotas. We believe the study supports our basic objection to the mandatory production control approach to farm policy.

The Grange believes that such a policy would lock-in the present structure of agriculture, benefitting the larger producer without significant benefit to the medium-size family farms that such a policy is perpetuated to assist.

The CBO's study states: "This policy would benefit those relatively few farm families who produce most of the farm output. Eventually, the benefits would be capitalized into the price of farmland and would increase the wealth of landowners, many of whom are not farmers. In turn, this would make it more costly for small farmers to expand and for newcomers to enter. Production controls, as well as other production-based income-enhancement policies, benefit only those individuals and families who produce certain commodities, and in proportion to their production."

Mandatory production controls, coupled with marketing quotas, become a license to farm with the benefits of price guarantees based on a certain percentage of parity accruing to the farmers who have ready access to capital, land and other input resources. We do not believe that such an approach to farm policy will save the medium-size family farmers.

Luther Tweeten, Regents Professor, Department of Agricultural Economics, Oklahoma State University, presented a paper at the National Agricultural Policy Symposium on March 28, 1983, which further highlights the problem we see with mandatory controls and loan rates being tied to a fixed index of prices, in this case parity.

In Dr. Tweeten's paper, he points out that "Small farms required 281 percent of parity (1910 to 1914 = 100) to cover all costs in 1981, whereas the largest farms required only 54 percent of parity to cover all costs." The study shows the percentage of parity price that is required to cover the full resource costs of farm output by the economic class of farms (See Exhibit A and B). The parity price that is required to meet full resource costs on the average is 72 percent, but it ranges from 90 percent for a farm with sales of $20,000 to $40,000, 80 percent for a farm with sales of $40,000 to $100,000 and 73 percent for farms with sales between $100,000 and $200,000. For farms with sales over $200,000, the parity price that is required drops to 54 percent.

The paper concludes with this statement: "Farms that account for half of farm output now cover all resource costs with prices at 54 to 62 percent of parity. With demand and supply expected to increase at roughly comparable rates on the average to Year 2000, farm prices will tend to gravitate to the cost of production on these efficient farms. Because these farms will set land prices for all, less efficient farms will lose money, even owning land with full equity if all of their resources are valued at opportunity costs. If a higher parity price ratio is maintained by government programs, land values will be bid up so that the same pattern of losses on smaller farms will prevail." (Emphasis added)

The 70 percent of parity that is contained in the proposed legislation will provide little benefit to the medium-sized family farm with sales less than $100,000, but more than $10,000. In 1981, there were approximately one million such farms, representing 28 percent of all farms. The solution to the allocation of benefits does not lie in increasing the percent of parity at which prices are supported because the higher the support level the greater the return will be to the larger farms. Even if the largest farms are limited in sales by marketing quotas, the economic benefits of such a farm policy will still accrue to those farms in a greater proportion than to smaller medium-sized family farms.

Mr. Chairman, in the remainder of our testimony, we will highlight some of our concerns regarding the Harkin/Gephardt bill that proposes mandatory production controls.

American agriculture is increasingly dependent upon the world market and the level and value of U.S. agricultural exports is important to both net farm income and the U.S. trade balance. Mandatory production controls in agricultural policy will make it impossible to regain our fair share of world markets or even maintain our present position. Due to the competitive prices that were set in the 1985 Farm Bill, the current farm program is beginning to reverse the trend of declining U.S. agricultural exports. Any action by the government to artificially support commodity prices above world markets will stop this recovery and will cause a further decline in the exportation of U.S. agricultural products.

According to the Food and Agricultural Policy Research Institute (FAPRI) at Iowa State University and the University of Missouri-Columbia, export levels would fall by 20 to 30 percent under the Harkin/Gephardt bill, even assuming that an international grain cartel could be negotiated with our trading competitors. The National Grange believes that even these levels of exports are overestimated unless a tremendous export subsidy program is provided to offset our higher domestic prices. If no export subsidy program is provided, a Resources for the Future study indicates that net farm income drops under the Harkin/Gephardt alternative; cash receipts would be approximately 40 percent below current program levels in 1991.

Apparently, then, exports would only take place if they were heavily subsidized by the government. However, this is in direct contradiction to our stated goals in trade negotiations where we are trying to eliminate, or at least reduce, export subsidies, not increase them. Therefore, this approach could cause a breakdown of multilateral trade negotiations. The Resources for the Future study shows that government outlays will be $5.3 billion higher than under the Food Security Act of 1985 (FSA85) by 1991 and three times the current outlay levels by 1995 if an export subsidy program is implemented.

Some studies of the Harkin/Gephardt bill assumed that there would be no trade retaliation resulting from these massive export subsidies. However, given the current world trade and political situation, there would be trade retaliation. This, in turn, would raise the government's costs of the export subsidies if U.S. agricultural exports were to be maintained. If commodity exports could not be maintained, the government's storage costs would rise and greater and greater acreage reductions would be needed to maintain the higher price levels. The entire plan could easily unravel as government costs increase, trade declines and the promised higher farm net cash incomes are lost through larger acreage reduction.

The increased value of exports and the reduced government costs of the Harkin/Gephardt bill is based on the assumption that a multinational world market share agreement and production controls for agricultural products would be successfully negotiated with our trade competitors. In a sense, this means that not only are American farmers required to approve this program but foreign governments and their farmers will also be required to participate if it is to be successful. America is at a disadvantage if the market shares are allocated at 1986 levels, as required by the legislation, since the United States' present share of that market is low. Additionally, as non-participating countries increase production because of higher world prices, the cartel would be forced to impose tighter restraints on its members. These same types of problems and restraints have led to the breakdown of other international commodity agreements. There is no reason to believe that a new international grain agreement would face a different destiny. It is apparent from various studies that mandatory production controls will destroy America's participation in world markets, causing severe side effects.

According to the FAPRI study, "By 1990, the cost savings and farm income gains are more than offset by increases in consumer food expenditures. By 1995, the losses by consumers in terms of food expenditures are more than $25 billion greater than farm income gains and [government] cost savings." That represents a 14 percent increase in the cost of food over the levels under the FSA85 by 1995, approximately $600 per year per household. These figures are despite the projected severe decrease in meat consumption.

As a higher percentage of disposable income is spent on food, less income is available to save, invest, or make other purchases in our economy, thus causing strain to be felt outside of the agricultural sector. Moreover, simple economics indicates that as food prices increase, consumer demand decreases, causing more strain on rural America. In sum, mandatory production controls would reduce demand not only abroad but domestically as well.

The livestock and poultry industries would be highly damaged by mandatory production controls. Due to reduced supplies, meat prices will rise and cause a 6 percent drop in per capital meat consumption. Further higher feed prices could force large beef feeding operations to locate in other countries, forcing America to import more red meat, or forcing America to build a trade wall around its borders through import tariffs or quantitative restrictions that are in violation of our international trade agreements.

The dairy provisions of the Harkin/Gephardt bill would also have a negative effect on the meat industry. Research shows that the proposal will force about 2 million head of dairy cattle to be slaughtered in a short time period. This represents almost 25 percent more cattle than were slaughtered under the Dairy Termination Program over an 18-month period. If they were slaughtered over a 12-month period, it would reduce the price of beef cattle by about 12 percent, over a 6-month period by 23 percent and over a 3-month period by nearly 50 percent (Texas A&M University study). We believe the dairy program is functioning as it was intended by reducing surplus, reducing production, and reducing the cow and heifer numbers. Cattlemen do not need the delicate supply-demand balance upset again due to government policy.

Another feature of the Harkin/Gephardt bill which has a potential impact on beef, hogs and poultry producers is difficult to analyze because it is very dependent upon administrative interpretation. This feature is the farmer-feeder exemption. Under this exemption, crop farmers who raise poultry and livestock would be allowed to feed over-quota. Even without the exemption, there is probably no means to prevent farmer feeding. This situation will provide for very significant structural effects, and will encourage large scale feeding operations and integrated operations. Many large farmers would be allowed to increase total market shares at the expense of smaller family operators. This problem encourages corporate feeding and greater market concentration in the meat industry. As a general farm organization, the National Grange must try to avoid agricultural policies or programs that benefit one commodity at the expense of another.

Mandatory production control requires large amounts of farmland to remain idle. FAPRI indicates that Harkin/Gephardt would require 40 million acres during the first four years and more than 50 million acres by 1995 to remain idle. The "Family Farm Act" calls for a maximum 35 percent unpaid set-aside, while USDA studies have shown that as much as 50 percent may need to be idled in order to sustain the support prices that are contained in the program. Government policy should not dictate farm production patterns or volume; instead, the farmer should make his planting decisions based on market demand and the best return for his resources. As government controls increase on production agriculture, production efficiencies decrease and our competitiveness in the world market is restricted.

The large reduction in acres farmed will have a negative effect on rural America. Less farmland being farmed means fewer inputs being purchased from supporting industries and a corresponding loss of rural business and employment to sustain rural economies. True, some rural communities would benefit from the initial boost in net cash farm income, but future economic activity would be slowed as the agricultural production machine becomes stagnate. But as the Texas A&M study points out, "rural communities would be hurt by the loss of input suppliers, small dairy processing plants and higher consumer prices. Declines in [dairy product] are felt most heavily by small, manufactured dairy product processing facilities in the Upper Midwest." Many of these, and other small agricultural processing enterprises, would be forced out of business.

If agricultural exports could not be retained, further cuts in acreaged farmland would be necessary in order to maintain the price structure. The stagnation of U.S. agriculture by the additional roll back in production would ripple throughout rural communities, causing further reductions in economic activity.

Enforcement of a mandatory control program would be difficult since incentives to circumvent the controls would be high. This forces more governmental involvement, and could increase government outlays for "policing" the program.

The American farmer, in the past, has unilaterally cut back on production to reduce world supplies, but global overproduction continues. Some would argue that there is, instead, a lack of buying power. In either case, world supply and world demand is not in balance. The U.S. should adopt agricultural policy that forces our foreign competitors to participate in supply management. Mandatory production controls does the opposite. If we adopted a program of mandatory production controls and marketing quotas to maintain price levels above world markets, we are sending a signal to our competitors to increase their production as we no longer will be in the export market. U.S. agriculture production capacity will have to be cut in half as it will be producing only for the domestic market. Mandatory production controls will have a significant macroeconomic effect. As mentioned earlier, the cost of food rises, which causes food-induced inflation. This, in turn, raises the cost of living and with it, the cost of the food stamp and other food assistance programs. In addition, the official U.S. poverty level would be increased, thus raising the cost of welfare programs and inflation-indexed programs, such as social security.

The National Grange believes that when you consider all segments of the national economy that are affected by mandatory production controls, farm structure and income, government costs, food costs, agricultural exports, job loss, agribusiness inputs, rural communities, etc., they become a less attractive agricultural policy alternative. Mandatory production controls and all of the ramifications that are necessary to carry out their intent will not save the family farm or rural America. In our judgment, they can open loopholes for larger operating firms and hasten the demise of rural communities.

Mr. Chairman, the Grange compliments you for hodling this hearing to investigate this policy alternative and we thank you for the opportunity to submit testimony for the hearing record. We at the National Grange look forward to working with you and your Committee in developing market-oriented agricultural programs.

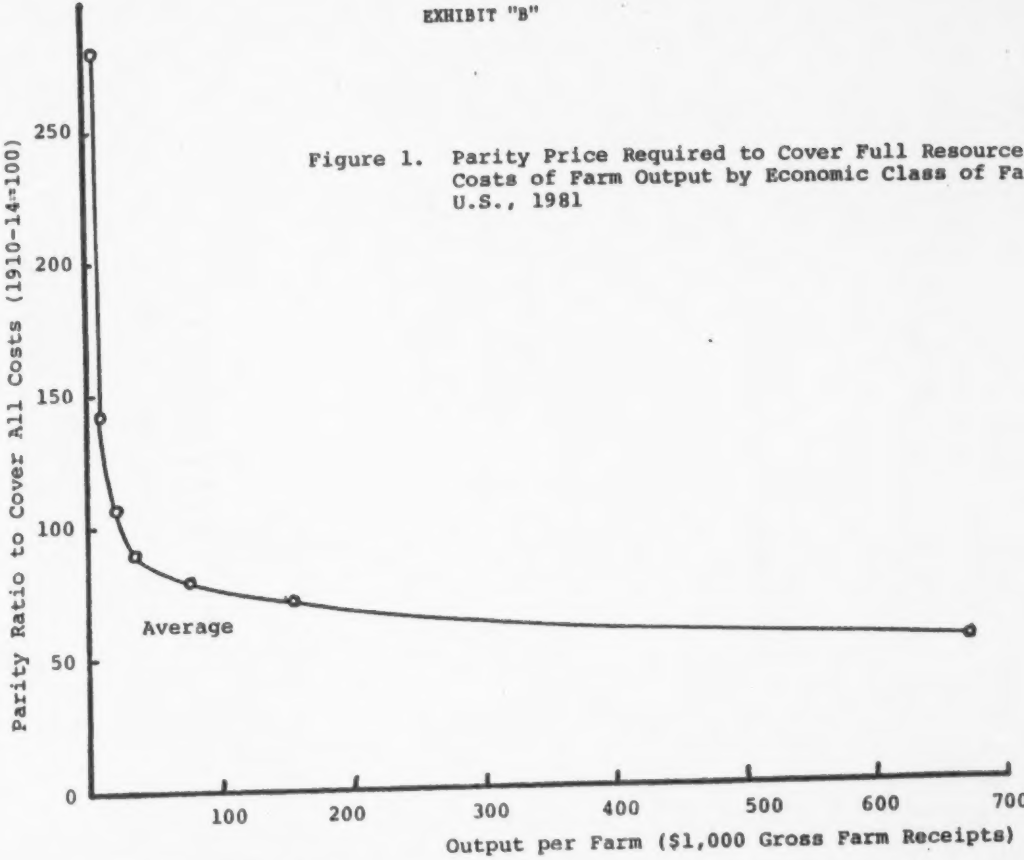
Unit Costs, Efficiency and Parity Price Requirements by Economic Class of Farms, U.S., 1981.
EXHIBIT "A"

Item	Economic Class, by Farm Sales							All Farms
	Less than $5,000	$5,000-$9,999	$10,000-$19,999	$20,000-$39,999	$40,000-$99,999	$100,000 $199,999	$200,000 and over	
1. Structure components								
a. Number of farms (1,000)	843	335	286	278	396	186	112	2,436
b. Percent of all farms	34.6	13.8	11.7	11.4	16.3	7.6	4.6	100.0
c. Percent of all output	1.6	2.0	3.2	6.2	19.0	19.0	49.0	100.0
d. Percent of all input	6.4	3.9	4.8	7.7	21.1	19.3	36.8	100.0
2. Efficiency measures under 3b assumptions								
a. Output/input (dollars)	.19	.38	.51	.60	.68	.74	1.00	.75
b. Input/output (dollars)	5.17	2.63	1.96	1.67	1.48	1.35	1.00	1.33
c. Output from 1981 input used with respective farm class efficiency ($ bil.)	34.7	69.4	93.1	109.5	124.2	135.1	182.6	136.9
d. Input required to produce 1981 output with respective farm class efficiency ($ bil.)	797.6	405.8	302.4	257.6	228.3	208.3	154.3	205.2
e. No. of farms required to produce 1981 output with respective farm class (1,000)	51,467	17,063	8,848	4,510	2,086	977	229	2,436
3. Parity ratio (1910-14=100) required to cover all costs								
a. Short-term debt 15%, long-term 10%, equity 8%	368	189	145	123	102	87	62	84
b. Short-term debt 8%, long-term 5%, equity 5%	281	143	106	90	80	73	54	72
c. Same as (b) but uniform 6% labor-management input share	203	116	93	82	75	72	54	68

Source: USDA, August 1982, p. 74; Tweeten and Huffman, p. 53.

EXHIBIT "B"

Figure 1. Parity Price Required to Cover Full Resource Costs of Farm Output by Economic Class of Farms, U.S., 1981



Source: Tweeten 1983

THE CONTINUING CRISIS
IN
RURAL AMERICA

FACT VS. FICTION

A Research Report
Prepared by
Prairiefire Rural Action, Inc.

550 11th Street # 200
Des Moines, Iowa 50309

May 15, 1987

Prairiefire

For More Information Call: 515/ 244-5671

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ABOUT PRAIRIEFIRE RURAL ACTION, INC.

Prairiefire Rural Action, Inc. is an independent, non-profit, education, research and community action organization based in Des Moines, Iowa. Prairiefire was organized in February 1985, and employs a staff of eleven. Since 1982, its staff and leaders have been actively involved in developing a regional and national grassroots response to the economic and social crisis in American agriculture and rural life.

The organization's principle objectives include: keeping small and medium-size family farms in operation and farm families on the land; revitalizing family farm agriculture in the U.S.; and building strong coalitions in support of family farm agriculture.

Prairiefire achieves these and other objectives by working directly with farm and rural families adversely affected by the current crisis and engaging in community organizing, hotline counseling, citizen action, public policy research and legal advocacy. Increasingly, Prairiefire staff have been called upon to educate and train the leaders and staff of farm, rural and religious organizations responding to the crisis in their respective states and regions.

INTRODUCTION

Recent discussions about the economic condition of rural America have centered around speculation that the worst of the crisis may be over. Farmers are even said to be "reaping optimism by the bushel" at the prospect of a financial turnaround after six long years of depression and decline. Accompanying this analysis, at least in part, is the idea that once prices for land and machinery fall to "realistic" levels, farmers can begin making a profit and others can "rebuild" their operations. And, finally, if the renewed optimism and liquidation of "excess debt" are not enough to bring recovery to rural America, a healthy dose of "economic development" will do the trick.

As this report will document, the assumptions inherent and facts contained in each of the arguments described above should be regarded with healthy skepticism. A thorough review of the relevant data may produce significantly different conclusions. It is the purpose of this report to present and discuss that data and offer some critical observations.

Net Worth and Land Values in 1986

Nearly all of the recent information cited to support the notion that things are "bottoming out" in the countryside centers around anecdotal reports that farmland values have stabilized. Where specific data is offered it merely points to a slowing or leveling off in the rate of decline of farmland values, but never an actual upward trend. In fact, in certain areas, as we describe below, farmland values have never been lower.

According to the USDA Economic Research Service, the erosion of farmers' equity continued during 1986 and there was no overall improvement in aggregate debt-to-asset figures from the previous year. Total farm debt (excluding that owed on farm dwellings) decreased by some $16 billion dollars in 1986, reflecting the forced liquidation of farm assets while those total farm assets also lost $59.4 billion in value.

Leaving little doubt as to a primary reason for farmers' continued equity erosion, the Federal Reserve Bank of Kansas City reported in February of this year that farmland values in 1986 averaged 14% lower than a year earlier and 55% lower than peak values reached in 1981 in the eight state district of Kansas, Missouri, Nebraska, Oklahoma, Colorado, New Mexico, and Wyoming. In fact, the rate of decline in farmland values quickened during the last quarter of 1986. The rates also varied widely across states and across categories of farmland, falling most severely -- an 11% decline -- for Nebraska ranchland. Conditions have been so bad for so long that the Bank considered noteworthy the fact that the rate of decline in the value of non-irrigated farmland "held steady" for the third quarter in a row, implying that an anuual rate of decline in land values of 10% over 9 months was good news!

In Iowa, farmland values declined by 17% in the year period ending Nov. 1 1986, to an average price of $787 per acre, and was down 63% from its peak 1981 value, according to the 45th Iowa State University annual farmland value survey. It is interesting to note that, in the first three months of 1987, Farm Credit System inventory land in Iowa was being sold at an average price of $752 per acre -- already 4.5% lower than the average price of Iowa farmland noted above.

Continued Erosion of Farm Net Worth and Income Forecast for 1987

Citing USDA figures, the Federal Reserve Bank of Chicago predicted that the national farm balance sheet at the end of 1987 would continue the trends that have prevailed in the past several years. It anticipated an additional decline in the value of farm real estate and forecast that farm sector receipts would also fall for the second consecutive year by some $4 billion.

Farm Product Prices and Income

Even if some of the reports of rising farmland values were true, no discussion of presumed stability in the agricultural economy would be complete without an investigation of two other critical factors: farm income and farm losses. Unfortunately, in both areas the prospects for continued decline are assured without a fundamental shift in federal farm policy.

In 1986, the USDA reported that the prices farmers recieved for their raw material products fell 5.5%. In January 1987, the Texas Dept. of Agriculure observed that the production cost to farmers for wheat, corn, rice, soybeans, and cotton was in every case subtantially higher than the market value -- even counting government subsidies. In each case the market price of the commodity as of January 1987, was less than or nearly equivalent to the 1932 depression levels in constant dollars. For example, present prices for corn -- generally under $1.50 per bushel -- represent little more than half the equivalent consumer-goods buying power that corn had during the worst years of the Great Depression. And, if that same depression-era corn were sold today, it would bring an estimated $2.80 per bushel in constant dollar terms! If that wasn't bad enough, the May 1987, issue of Farm Futures magazine predicts a 33% decline in 1987 corn prices from 1985-86 crop year levels. Similar projections for a steady erosion in net farm income have been advanced in several other independent studies, among them the reports produced by the Food and Agriculture Policy Research Institute at the University of Missouri, Columbia and Iowa State University.

Loss of Farms

In the fiscal year ending June 30, 1986, the percentage of farmers who went out of business increased from 4.8% to 6.2% according to the latest American Bankers Association (ABA) survey. That 6.2% represents a loss of over 141,000 of the 2,274,730 farms that USDA estimates were in operation nationwide at the end of 1985. Or, put another way, that is more that 387 lost farms per day; one farm every four minutes.

ABA survey projections on the percentage of farm borrowers whose financing would be discontinued rose from 5.5% in FY 1986 to 6.4% in FY 1987. This means that approximately 200,000 farmers will have lost their traditional source of financing between June 30th of 1986 and June 30th 1987.

The accelerated loss of farms in 1986 is also easily documented using even more conservative USDA data. Over the course of 1985, some 43,000 farms were lost, according to the National Agricultural Statistics Service count -- a "mere" 117 farms per day, or one every 10 minutes. And between the end of 1985, and the end of 1986, an additional 60,000 farms vanished from the count, increasing the average rate of loss to more than 165 farms per day, or one farm every 7 minutes -- a staggering 50% increase over the number of farms lost in 1985.

Responding to questions from North Dakota Senator Quentin Burdick this spring, Farm Credit Administration (FCA) chairman Frank Naylor presented statistics on the number of Federal Land Bank (FLB) and Production Credit Association (PCA) bankruptcies and foreclosures. The figures reveal that in 1986 the FCS has continued its aggressive policy of forced liquidation for troubled borrowers. Whereas at the end of 1985 the FCS had 9,203 accounts in foreclosure or bankruptcy, that figure had risen to 13,516 by the end of last year.

With respect to government-initiated liquidation actions, the Farmers Home Administration sent notices of "adverse action" -- the first step towards forced liquidation or foreclosure -- to some 27,000 farmers nationwide (roughly 10% of all of their borrowers) as of Feb. 1986. More than 5000 "acceleration letters" subsequently followed and, as of March 31, 1987, FmHA reported it had approximately 2000 cases in foreclosure. With nearly one-third of FmHA borrowers behind in the their payments, FmHA collection actions are likely to become more vigorous in 1987.

The long-term picture is even worse. The Congressional Office of Technology Assessment (OTA) predicts that one million U.S. farms will disappear by the year 2000 -- most of them medium-size family operations -- without major changes in national farm policy. That's a rate of nearly 71,500 farms per year -- or 11,500 more farms than the USDA says were lost in 1986 -- in every year from March 1986 until the year 2000.

Farm Bankruptcies

Although the Administrative Office of the U.S. Bankruptcy Court has never kept separate track of farm-related bankruptcies, figures on the use of the new Chapter 12 Farm Bankruptcy Law are available. Since the law took effect on November 26, 1986, filings have been brisk. In the last days of 1986 alone, 60.1 farmers filed, followed by 558 others in the first month of 1987. A recent 12 state survey of Bankruptcy Clerks in Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin by Prof. Neil Harl of Iowa State University revealed that a total of 1366 farmers had filed during the period November 26, 1987 - March 1987.

The number of farm-related bankruptcies has been so great that it spurred Congress to authorize the funding of 52 new bankruptcy judgeships in April. On the Senate side, U.S. Senator Charles Grassley -- saying that "the situation in the farm states requires immediate attention" -- included the $34 million measure in a supplemental spending plan approved by the Appropriations Commitee.

In Iowa, where the bankruptcy courts do keep track of the total number of farm bankruptcy cases, there were 440 filings of all kinds in the first three months of 1987. This compares with 385 filings during the same three months last year. Moreover, the overall farm bankruptcy rate for the state in the first three months of 1987 was up 39.9% over the 1986 year average -- from 104.8 cases per month to 146.67 per month.

Forced Land Transfers

Much of the 1986 reduction in total farm debt was due to the forced liquidation of farm assets. The Feb. 23, 1987 issue of Landowner magazine reported that newly released university studies from the Dakotas and Minnesota show that for the first time in recent history more than half the land sales in those states were caused by foreclosure or "other financial stress." In Minnesota an estimated 52% of the land sales in 1986 were forced sales, up from 34% in 1985 and 16% in 1984. In North Dakota forced land transfers were estimated at 57% in 1986, as compared with 50% and 43% for 1985 and 1984, respectively. Those percentages only reflect farmers who resisted selling their land until they had no other legal alternative -- numerous others presumably threw in the towel by "voluntarily" selling out before they reached that stage.

All of the data cited above reveals a clear and alarming trend: Both the rate of farm losses and decline in farm numbers are accelerating, not stabilizing or slowing.

Land Control and Farm Size

In addition to overlooking much of the presently available data that contradicts their key assumptions, proponents of the notion that conditions are improving in rural America almost invariably ignore the long term trends and consequences of the unfolding crisis. If we are to believe that the worst is over and that things are on the mend, why should we even bother to examine larger issues such as land tenure or reform? In fact, without considerable discussion of the trends outlined below, we will be unable to move forward with consideration of a variety of public policy initiatives geared towards preserving and enhancing family farm agriculture after the crisis has passed.

Since 1981, when the farm crisis began, the number of farms overseen by the 1,000 farm management companies in the U.S. has increased by over 40%, to 110,000 from 78,000, according to Agrifinance magazine. The number of acres mangaged by these companies has increased from 48 million to almost 59 million -- an area about the size of the state of Colorado. The government has also recently acquired substantial inventories of farm properties as a result of the aggressive collection policies adopted by USDA's Farmers Home Administration. At the end of 1986, that agency was the sole owner of about 5000 farm properties valued at $833 million, representing about 1.47 million acres -- an area larger than the size of Rhode Island.

In Iowa, the twelve largest insurance companies more than doubled their farmland inventory in value to $112.2 million on 130,000 acres by the end of 1986. During the year these compaines accumulated 294 parcels totaling 77,000 acres according to the Land Stewardship Project of Stillwater, Minnesota. This increase was obtained exclusively through foreclosures and forced sales, according to the Project. It is estimated that insurance companies own some 3 million acres of farmland nationally, -- both in the form of investments and foreclosure-acquired properties -- valued at $2.3 billion at the end of 1986.

The report of the Congressional Office of Technology Assessment citied earlier also predicted that the loss of a million family farms would be accompanied by an increase in the number of "super farms," from the estimated 10,000 already in existence to a projected 50,000 units, each with annual sales of over $ 1 million. These 50,000 "super farms" are predicted to account for 75% of U.S. production by the year 2000. The OTA predicts that this development will be marked by the continued concentration of agricultural resources -- including land -- into fewer and larger farms. And, going as far back as 1978, a USDA report revealed that of the 1,316 million acres of land in private ownership in the U.S. at that time, 75% was owned by a mere 5% of the nation's landowners, or 1% of the entire adult population.

Farm Debt Stress Remains Concentrated Among Family-Size Farms

Despite the fact that a tremendous amount of farm debt has been flushed out of the system, significant problems still remain. And, although real estate values may have fallen to a level where farmland can "pay for itself," for those operators who are carrying even a modest amount of debt, any "investment" in farm real estate is not likely to occur any time soon. Some 925,000 of roughly 1.5 million farms surveyed by the USDA last January were in no position to make farmland purchases because of either negative cash earnings, solvency problems or both. And, of the estimated 626,000 farms that supposedly had either postive earnings or little debt, less than half even had gross sales greater than $40,000/year. In other words, of the 1.5 million farms surveyed, only one out of five might be in a position to expand their operations.

As of January 1, 1986, the percentage of "highly leveraged" farms -- those with debt/asset ratios of greater than 40% -- had increased to 21% from the previous year's figure of 19%. Those farms held 66% of the total farm debt, up from 62% at the beginning of 1985. Moreover, 11,000 farms became "technically insolvent" over the course of 1985 -- representing 5% of full time farm operators -- and were considered highly unlikely to survive.

The number of "very highly leveraged" producers -- those with debt/asset ratios of over 70% but not yet technically insovlent -- increased during 1985 from 11.6% to 12.7%. The prospects for these "very highly leveraged" 194,600 farms to survive beyond 1988 without major debt restructuring is highly doubtful.

Even more disturbingly, highly leveraged, very highly leveraged and technically insolvent farm operaters tended to be younger than than those who owned financially healthy farms. 44.9% of those 34 years of age or younger -- and 42.9% of those between 35 and 44 -- had debt/asset ratios higher than 40%. But only 21.4% of those between 45 and 54 years of age had debt/asset ratios in this 40% and over category. Only 10.7% of 55 to 64 year olds, and 3.4% of those 65 or older were similarily situated. Furthermore, 82% of total farm debt was held by operators whose primary occupation was farming. These figures show that the farm debt continues to disproportionately burden younger, full-time family farmers. "Rebuilding" for these operators, even after bankruptcy, is an unlikely prospect.

Black Land Loss

Black and minority farmers face significant barriers that are likely to prevent them from taking advantage of the "rural recovery" that their finanically troubled white counterparts might supposedly soon enjoy. As of May 1987, the Federation of Southern Cooperatives/Emergency Land Fund reported that land owned by Black Americans was being lost at a rate of 9600 acres per week, or 500,000 acres per year. At this rate Blacks will be a landless people as early as 1994.

Of the 2,400,550 farms that the USDA counted in 1982, only 33,250 -- or 1.4% -- were owned by Blacks. Moreover, the average age of Black farmers is seven years older (58) than that of white farmers (51) indicating that young Black farmers have experienced somewhat greater difficulty becoming established in farming that young white farmers. For example, the Farmers Home Administration -- the government's "lender of last resort" -- made only 34 farm ownership loans to Black farmers nationwide last year, according to the San Fransisco Examiner (3/18/87). However, despite obvious indications of racial discrimination, the USDA has yet to publicly acknowledge that such a problem exists. Policy initiatives that address the rural crisis must, therefore, specifically address the problems of minority farmers and others who have been systematically excluded from full participation in federal farm programs.

Farm Credit System (FCS)

Perhaps the single largest factor that will influence the immediate direction of the rural economy is the financial viability of the nation's largest agricultural lender, the Farm Credit System. Future trends in farmland values are, for example, probably more dependent on how a bailout of the FCS is structured than any other development. Conclusions or projections regarding possible recovery for the farm sector are incomplete without full consideration of the future of the FCS.

According to the Federal Reserve Board, the FCS holds approximately 25.8% of the $176.3 billion in farm debt (excluding the value of farm households). A considerable portion of the system's $4 billion-plus share of the $16.1 billion decrease in outstanding farm debt that occured during 1986 was achieved at the expense of member-borrowers, despite congressionally-mandated policies of forbearance. The FCS also lost billions of dollars in the process, according to the FCA. In a congressional hearing held April 21, 1987, the FCA reported that the system lost $1.9 billion in 1986 and is projected to lose from $1.4 to $1.9 billion in 1987. It is anticipated that the system will write off an additional $1.38 billion as uncollectable in 1987 -- only slightly down from the 1986 level -- and that it will need a federal bailout before the end of the year. Moreover, the FCA estimated that the system could lose up to $11.7 billion through 1994.

U.S. Senator Tom Daschle reports that the FCS has taken control of an amount of farmland equivalent to the size of Connecticut and Rhode Island and that approximately 253,000 farm borrowers have been eliminated from the system to date. According to the Farm Credit Corporation of America, the FCS now holds some 2.2 million acres of land valued at nearly $1 billion.

The FCS has been busy selling land to investors at a fraction of the price paid by many of the previous owners. For example, in the first three months of 1987 the Omaha Federal Land Bank recorded 1,189 pending and completed transactions involving 245,000 acres of land in the states of Nebraska, South Dakota, Iowa, and Wyoming, according to the Des Moines Register (April 21, 1987). The majority of the deals were cash and totaled $40.8 million. An additional 527,000 acres with a present market value of $148.7 million were for sale by the Omaha FCS Capital Corporation as of last month.

Farmers Home Administration (FmHA)

Congress created the FmHA to provide credit to family farmers and ranchers who could not obtain financing elsewhere. As FCS and conventional lenders discontinued large numbers of their traditional borrowers during the period 1979 - 1986, the FmHA became an increasingly important source of financing. Now about 12.5% --- or 275,000 -- of the nation's farmers depend on the FmHA for credit.

As of November 1986, 85% of FmHA borrowers were highly leveraged producers, and nearly half of these borrowers had negative cash flows (they paid out more than their farms generated in income in the past crop year) and 31% of FmHA borrowers nationally were delinquent on their loan payments as of July 1986. More recent figures provided by the Iowa division of FmHA reveal that the level of delinquent farm borrowers jumped by 26..2% from a 1986 year-end level of 2,029 to 5,483 as of Feb. 18, 1987. The amount of Iowa farmland in FmHA inventory also skyrocketed 49% in the year period ending March 1, 1987, totaling 69,160 acres.

Nationally, the FmHA has cut direct operating loans 35%, from $2 billion in 1986 to $1.3 billion in 1987. These cuts have had devastating effects on the local level as many former FmHA direct loan borrowers are forced to seek credit from -- and pay higher interest rates in -- the private sector. In Iowa, the FmHA has decreased direct loan funds 40 percent from a year ago and 66% from 1985! FmHA officials maintain that such cutbacks are legitimate because of a "lack of qualified borrowers." There are, however, additional reasons for the extraordinarily low approval rate for FmHA applications. They are: excessive red tape, lack of properly trained personel, burdensome regulations and a recalcitrant administration. As of Feb. 28, 1987, only 832 (26%) of FmHA loan applications on hand had been approved in Iowa.

Impact on Communities, Business and Industry

With one of every five jobs in America related to food production and distribution, the old maxim that economic depressions are both farm-led and farm-fed has it roots in eonomic reality. In fact, rural banks, small town retail businesses, local rural governments and the agricultural implement manufacturing industry have been among the sectors hardest hit by the prolonged crisis in agriculture.

In examing potential strategies for rural economic development, some observers have suggested that, since a majority of rural America's population does not live on farms, economic prosperity can be achieved by concentrating more heavily on the creation on non-farm related industries and jobs. Furthermore, it is assumed that the best approach for those communities that still are agriculture-dependent would be to create a larger pool of available off-farm jobs so that "underemployed" farmers can supplement their income. Unfortunately, little consideration is given to the kind of jobs that are to be created or the potential negative effects certain industries can have on the surrounding environment. And those who promote "economic development" as a solution to the present crisis -- or even as part of a long term strategy -- all too often overlook the fact that consideration should be given first to the immediate needs of those small towns and larger communities that have been most hard hit. 1986 saw a continuation and deepening of the problems faced by these agriculture-dependent communities and their residents:

Small Town Retail Services and Businesses

According to the Federal Reserve Bank of Kansas City, bankers in the seven state district reported that 5% of rural nonfarm businesses closed during 1986, a rate that has been sustained for the past two years. In addition, bankers reported that "25% of rural nonfarm businesses in their trading areas were having severe financial problems."

Iowa State University Economics Professor Kenneth Stone has done some of the most extensive research to date regarding the impact of the farm financial crisis on rural communties and businesses. His most recent figures reveal that 1986 was another dismal year for small town firms in the state of Iowa. Communities of under 5,000 lost on average an additional 2.5% of "pull factor" in 1986, continuing downward trends which have amounted to a 27.5% decline in "pull factor" over the last decade. "Pull factor" is a calculation of the per capita share of total state sales a community has. In simple English, the significant decline in pull factor for Iowa towns of less than 5,000 residents means that those towns lost a hefty percentage of their retail business to larger communities.

Larger towns of up to 10,000 residents also lost an additional 2% in retail sales in 1986, while those in the 10,000 to 25,000 population category held their own. Accordingly, only 18 counties in Iowa had a net inflow of sales in 1986 as compared with 20 counties in 1985. These continued trade losses translated into the loss of some 6,519 local firms from 1979 to 1985 in Iowa towns with a population under 5,000.

Farm-related businesses have been particularly squeezed. In Iowa in 1986, building materials dealers lost 3% of their real sales from the 1985 level, and an additional 7% of those dealers went out of business. Hardware stores lost 6% of real sales, and 5% of the stores folded. And, in 1985 alone, the Iowa-Nebraska Farm Equipment Association reported that 18% of its Iowa members quit business.

The continued loss of farm-related business firms also precipitates the demise of other types of retail establishments. In 1986, Iowa towns with a population of 5,000 or less lost 5% (214) of their gas stations, 2% (50) of their grocery stores, 6% (27) of their variety stores and 6% (29) of their men's and boys' apparel shops.

Unable to earn a livelihood in their local communites, some 30,000 Iowans -- representing 5,000 households -- moved out of the state during the Fiscal Year ending July 1986, according the U.S. Census Bureau; this in a year when 1.3 million households were added to the national count.

Community Banks

In 1986, 138 banks in the U.S. failed, setting a new post-Depression record over the 130 banks that had failed in 1985. At least half of these new failures were agricultural banks.

In the state of Iowa, 11 banks failed in 1985, and there were 10 bank failures in 1986. During the first four months of 1987 there was a bank failure approximately every 34 days. On May 3rd of this year the Des Moines Register observed that the "raw numbers" supplied by the FDIC suggested "no slackening in the Iowa bank failure rate for 1987."

Agricultural Implement Manufacturing

Nationally, according to the Farm and Industrial Equipment Institute, all major farm equipment items suffered unit sales declines in 1986, recording drops from 6% to nearly 30% below 1985's depressed levels. In the first quarter of 1987, the downward trend continued, with total U.S. tractor and combine sales at only 5,890 units, down 18% from the same period in 1985 and 57% lower than the first three months of 1984, according to figures reported in the April 10, 1987, Agricultural Letter of the Federal Reserve Bank of Chicago.

Local Rural Governments

In May of 1986, the U.S. Senate Intergovernmental Relations Subcommittee released a report -- Governing the Heartland: Can Rural Communities Survive the Farm Crisis -- which documented the problems of rural governments faced with a declining tax base, increased demand for public services and sharp reductions in federal revenue sharing funds. Accordingly, it questioned the survivability of local rural governments under such conditions.

Based on a study of rural counties in Minnesota, Iowa, Nebraska, North Dakota, Kansas, Missouri, Arkansas and Montana, the report found dramatically increased property tax delinquency rates and rising unemployment. School and county services budgets were severely pinched and six of the eight state governents studied had been forced to make mid-year reductions in their 1986 budgets.

Increasing Disparity in the Rural and Urban Economic Condition

Of the 2400 non-metropolitan counties in the U.S. only 300 had unemployment rates higher than 9% in 1979. By 1985, that number had grown to 1100, nearly half the total. Meanwhile, the poverty rate for rural counties was 18.3% as against 12.7% for metropolitan counties, according to the National Planning Association.

Conclusion

After more than six years of what was initially referred to in relatively simple terms as the "farm crisis," conditions have shifted constantly in tone and character, becoming chronic and more complex. Recent optimism about the economic plight of farmers and rural Americans is, however, largely unfounded. Unfortunately, the bulk of the data suggests that conditions have, if anything, considerably worsened. The need for both immediate intervention and long term reform of national farm policy has never been greater. Only by acknowledging the gravity of the present crisis can we move forward with the public policy debate that is an essential part of the process of formulating appropriate responses and interventions.

II

100TH CONGRESS
1ST SESSION

S. 658

To provide price and income protection to family farmers through the management of the supply of the 1988 through 2000 crops of certain agricultural commodities, to enhance the ability of eligible farm borrowers of qualifying States and the farm creditors of such borrowers to restructure farm loans, to provide grants to States to assist persons leaving farming, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 6, 1987

Mr. BYRD (for Mr. HARKIN) (for himself, Mr. BURDICK, Mr. EXON, and Mr. DASCHLE) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To provide price and income protection to family farmers through the management of the supply of the 1988 through 2000 crops of certain agricultural commodities, to enhance the ability of eligible farm borrowers of qualifying States and the farm creditors of such borrowers to restructure farm loans, to provide grants to States to assist persons leaving farming, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Family Farm Act".

(b) TABLE OF CONTENTS.—The table of contents is as follows:

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TITLE I—AGRICULTURAL COMMODITY SUPPLY MANAGEMENT

SEC. 101. AGRICULTURAL COMMODITY SUPPLY MANAGEMENT PROGRAM FOR 1988 THROUGH 2000 CROPS.

Effective only for the 1988 through 2000 crops of a commodity, the Agricultural Act of 1949 (7 U.S.C. 1461 et seq.) is amended by adding at the end thereof the following new title:

"TITLE VI—AGRICULTURAL COMMODITY SUPPLY MANAGEMENT PROGRAM FOR 1988 THROUGH 2000 CROPS

"SEC. 601. DEFINITIONS.

"As used in this title:

"(1) COMMODITY.—The term 'commodity' means wheat, corn, grain sorghums, barley, oats, rye, upland cotton, rice, and soybeans.

"(2) COUNTY COMMITTEE.—The term 'county committee' means the county committee established under section 8(b) of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590h(b)) for the county in which the farm is administratively located.

"(3) CROP ACREAGE BASE.—The term 'crop acreage base' means the crop acreage base for a commodity for a farm determined under section 616.

"(4) ELIGIBLE CROP ACRES.—The term 'eligible crop acres' means the crop acreage base of the producer on a farm minus the set-aside acres of the producer, except the eligible crop acres of the producer may not be less than 50 percent of the total crop acres of the producer.

"(5) **ELIGIBLE FAMILY FARMER.**—The term "eligible family farmer" means any person who meets each of the following requirements:

"(A) **CITIZEN OF THE UNITED STATES OR PERMANENT RESIDENT ALIEN.**—The person (or, if the person is not an individual, each individual with a beneficial interest in the person) is a citizen of the United States or an alien lawfully admitted to the United States for permanent residence under the Immigration and Nationality Act (8 U.S.C. 1101 et seq.).

"(B) **OPERATOR OF FAMILY FARM.**—The person's farm operations meet each of the following requirements:

"(i) The person (or, if the person is a cooperative, corporation, partnership, or joint operation, the members, stockholders, partners, or joint operators, respectively) devotes a substantial amount of time daily to the management or operation of the farm.

"(ii) A majority of the hours of labor required annually for the (farm and nonfarm) enterprise of the farm is provided by the person and the person's family (or, if the person is a cooperative, corporation, partnership, or joint operation, by the members, stockholders, partners, or joint operators, respectively, and the families of such individuals).

"(iii) The value of the gross annual sales of agricultural commodities produced on the farm is at most $500,000.

"(C) NONFARM RELATED INCOME TEST.—The annual average nonfarm related income of the person for the 4 calendar years preceding the calendar year in which this subtitle takes effect is at most $45,000.

"(D) PROJECTED GROSS INCOME TEST.—The person's gross income for any of the person's 1st 3 fiscal years ending after the date of the enactment of this title is likely to be less than the sum of—

"(i) the farm operating expenses of the person for the fiscal year;

"(ii) the reasonable living expenses of the person for the fiscal year; and

"(iii) the principal and interest payments due from the person in the fiscal year to the person's farm creditors.

"(6) MINORITY.—The term 'minority' means any individual who is a citizen of the United States and who is a Black, Puerto Rican, American Indian, Eskimo, Oriental, Aleut, or is a Spanish speaking individual of Spanish descent.

"(7) PROGRAM PERIOD.—The term 'program period' means—

"(A) in the case of a commodity, a period of 4 crop years for the commodity that begins with the first crop year for which the program is approved under section 602(c), except that such period may not begin before the 1988 crop year nor end after the 2000 crop year; and

"(B) in the case of milk, a period of 4 calendar years that begins with the first calendar year for which the program is approved under section 602(c), except that such period may not begin before the 1988 calendar year nor end after the 2000 calendar year.

"(8) RESERVE.—The term 'reserve' means the farmers disaster reserve established under section 610.

"(9) SET-ASIDE ACRES.—The term 'set-aside acres' means the number of acres that a producer must set-aside or otherwise divert from the production of a commodity to be eligible to receive a loan, purchase, or payment from the Secretary under this title.

"(10) TOTAL CROP ACRES.—The term 'total crop acres' means any acre which was planted, or intended to be planted, to a commodity during the 5 preceding crop years.

"SEC. 602. COMMODITY AND MILK PRODUCER REFERENDA.

"(a) IN GENERAL.—As soon as practicable after the date of enactment of the Family Farm Act (but not later than August 1, 1988), and not later than August 1 of the last year of each program period, to determine whether the program established by this title and section 201(d)(7) shall be implemented during the succeeding program period, the Secretary shall conduct referenda among eligible producers (as determined in accordance with subsection (b)).

"(b) ELIGIBILITY.—

"(1) COMMODITY PRODUCERS.—Any producer on a farm with a commodity acreage base of 15 or more acres for the relevant crop, as determined under section 107D, 105C, 103A, or 101A, shall be eligible to vote in a referendum.

"(2) MILK PRODUCERS.—Any producer who, during a representative period (as determined by the Secretary), has been engaged in the production of milk for commercial use shall be eligible to vote in a referendum.

"(3) CROP SHARING.—For purposes of this section, the term 'producer' shall include any person who is entitled to share in a crop of the commodity or milk, or the proceeds thereof, because the person shares in the risks of production of the crop or milk as an owner, landlord, tenant, or sharecropper.

"(4) LANDLORDS.—For purposes of this section, a landlord whose return from the crop or milk is fixed regardless of the quantity of the crop or milk produced shall not be considered a producer.

"(c) REFERENDA.—A referendum shall be conducted for each commodity, except that, in the case of wheat and feed grains, a combined referendum of wheat and feed grain producers shall be conducted.

"(d) APPROVAL.—Notwithstanding any other provision of this Act, if the program established by this title and section 201(d)(7) is approved by at least one-half of the eligible producers voting in a referendum conducted under subsection (a)—

"(1) the Secretary shall implement such program during the succeeding program period; and

"(2) sections 107D, 105C, 103A, 101A, 201(d) (1) and (2), and 201(i), as appropriate, shall not apply during such period.

"(e) DISAPPROVAL.—

"(1) SUCCEEDING CROP OR CALENDAR YEAR.—Notwithstanding any other provision of this Act, if such program is not approved by at least one-half of the eligible producers voting in a referendum—

"(A) the Secretary shall not implement such program during—

"(i) in the case of a commodity, the succeeding crop year; and

"(ii) in the case of milk, the succeeding calendar year; and

"(B) sections 107D, 105C, 103A, 101A, 201(d) (1) and (2), and 201(i) shall apply during such crop or calendar year, as appropriate.

"(2) SUBSEQUENT CROP AND CALENDAR YEARS.—Notwithstanding any other provision of this Act, if such program is not approved by at least one-half of the eligible producers voting in a referendum conducted under this section, not later than 12 months after the date of the referendum, to determine whether the program established by this title and section

201(d)(7) shall be implemented during the succeeding program period, the Secretary shall—

"(A) conduct another referendum among eligible producers (as determined in accordance with subsection (b)); and

"(B) if such program—

"(i) is approved by at least one-half of the eligible producers voting in the referendum, implement such program for the program period in accordance with subsection (c); or

"(ii) is not approved by at least one-half of the eligible producers voting in the referendum, not implement such program for the crop or calendar year, as appropriate, in accordance with paragraph (1).

"SEC. 603. LOANS.

"(a) AVAILABILITY.—Subject to subsections (b) through (e), the Secretary shall make available to producers loans and purchases for each crop of a commodity produced during a program period at such level, not less than the minimum support level for a commodity established under subsection (b), as the Secretary determines appropriate taking into consideration the actual cost of production of the commodity throughout the United States.

"(b) MINIMUM SUPPORT LEVEL.—The minimum support level for a commodity during a crop year established under this section shall equal a specified percentage of the parity price of the commodity as provided in the following table:

"The minimum support level for a commodity during the:	Shall equal the following percent of the parity price of the commodity:
1988 crop year	70 percent
1989 crop year	71 percent
1990 crop year	72 percent
1991 crop year	73 percent
1992 crop year	74 percent
1993 crop year	75 percent
1994 crop year	76 percent
1995 crop year	77 percent
1996 crop year	78 percent
1997 crop year	79 percent
1998 through 2000 crop years	80 percent.

"(c) MARKETING CERTIFICATES.—The quantity of the crop of a commodity that a producer may place under loan or have purchased under this section may not exceed the quantity of the crop of the commodity the producer may market, barter, or donate under a marketing certificate issued under section 608.

"(d) STUDY.—Prior to the beginning of the 1993 crop year, the Secretary shall conduct a study of the economic impact of this Act and shall make recommendations to Congress regarding continuation of the schedule contained in subsection (b).

"SEC. 604. NATIONAL MARKETING QUOTAS.

"(a) PROCLAMATION.—The Secretary shall proclaim a national marketing quota for each commodity for each marketing year of the 1988 through 2000 crops of commodities. The proclamation shall be made as soon as practicable during each calendar year preceding the year in which the marketing year for the crop begins.

"(b) QUANTITY.—Subject to section 610(e), the quantity of the national marketing quota for a commodity for a marketing year shall be a quantity of the commodity (less imports) that the Secretary estimates will be utilized during the marketing year to meet (1) domestic demand, (2) export demand, (3) food aid requirements, (4) carryover requirements, and (5) reserve requirements.

"(c) CARRYOVER STOCKS.—

"(1) IN GENERAL.—The Secretary shall maintain adequate carryover stocks of a commodity.

"(2) EXCESSIVE STOCKS.—

"(A) IN GENERAL.—If the Secretary determines that the carryover stock of a commodity is excessive, the Secretary shall reduce the excess carryover stock of the commodity over a 5-year period to assure a desirable level, except that the Secretary may not reduce the carryover stock of a commodity by more than 20 percent during any crop year.

"(B) MULTILATERAL TRADE NEGOTIATIONS.—

"(i) IN GENERAL.—Not later than 30 days after the date of enactment of the Family Farm Act, the President shall take actions to initiate the negotiation of a multilateral trade agreement with exporting nations to ensure that the United States market share of the world export market for each commodity is equivalent to the United States market share of the commodity during the marketing year for the 1985 crop.

"(ii) EXPORT ASSISTANCE.—If a multilateral trade agreement described in clause (i) has not been entered into 270 days after the date of enactment of such Act, the Secretary shall use an agricultural payment-in-kind or export enhancement program, or both—

"(I) to dispose of excess carryover stocks of each commodity; and

"(II) to ensure the achievement of the objectives referred to in clause (i).

“(C) Methods.—To reduce the excess carryover stock of a commodity and establish an adequate reserve, the Secretary shall—

“(i) establish an adequate reserve for the commodity in accordance with section 610(e);

“(ii) issue payment-in-kind certificates to producers for conservation purposes;

“(iii) in the case of a declared disaster in an area, provide assistance to livestock producers in the area with an established history of operation;

“(iv) divert such carryover stock to food and hunger programs;

“(v) provide incentives for the production of ethanol, as determined by the Secretary; or

“(vi) implement any combination of subparagraph (B) and the preceding clauses.

“SEC. 605. NATIONAL ACREAGE ALLOTMENTS.

“(a) Proclamation.—The Secretary shall proclaim a national acreage allotment for each commodity for each of the 1988 through 2000 crop years.

“(b) Quantity.—The quantity of the national acreage allotment for any crop of a commodity shall be the number of acres that the Secretary determines on the basis of the projected national yield and expected underplantings (acreage other than acreage not harvested because of program incentives) of farm acreage allotments will produce a quantity of the commodity equal to the national marketing quota for the commodity for the marketing year for such crop.

"SEC. 606. FARM ACREAGE ALLOTMENTS.

"(a) APPORTIONMENT.—The national acreage allotment for a commodity shall be apportioned by the Secretary among farms, through local committees, in accordance with this section.

"(b) PLANTING INTENTIONS.—To be eligible to receive a farm acreage allotment for a commodity for any crop year, the producer on a farm must complete and submit to the Secretary an application that indicates the number of acres the producer intends to use for the production of each commodity during the crop year.

"(c) PLANTED COMMODITIES.—

"(1) IN GENERAL.—Except as provided in paragraph (2), a producer may plant one or more commodities (at the discretion of the producer) on acreage permitted to be planted under a farm acreage allotment issued under this section for a crop year.

"(2) INCREASED ACREAGE.—A producer may not increase the quantity of acreage used for the production of a commodity during a crop year by more than the number of acres equal to 20 percent of the eligible crop acres of the producer during the preceding crop year.

"SEC. 607. SET-ASIDE PROGRAM.

"(a) IN GENERAL.—If the Secretary determines that the projected quantity of a commodity, in the absence of a set-aside program, will exceed the national marketing quota for the commodity, the Secretary shall provide for a set-aside program as described in this section.

"(b) TERMS.—If a set-aside program is announced under subsection (a), as a condition of eligibility for loans, purchases, and payments for a commodity authorized by this Act, the producers on a farm must—

"(1) set aside and devote to conservation uses an acreage of cropland equal to a specified percentage of the crop acreage base (hereafter in this section referred to as the 'set-aside percentage'); and

"(2) otherwise comply with the terms of such program.

"(c) SET-ASIDE PERCENTAGE.—

"(1) ESTABLISHMENT.—The Secretary shall establish the set-aside percentage applicable to the producers on a farm for a crop of a commodity on the basis of—

"(A) the number of acres the producers intend to use for the production of each commodity during the crop year, as determined under section 606(b); and

"(B) the projected quantity of the commodity harvested by the producers during the crop year, as determined under paragraph (3).

"(2) PROJECTED QUANTITY.—For purposes of this subsection, the projected quantity of a commodity harvested by the producers on a farm during a crop year shall equal the product obtained by multiplying—

"(A) the crop acreage base of the producers on the farm; by

"(B) the established yield of the producer on the farm.

"(3) SET-ASIDE TARGETING.—

"(A) IN GENERAL.—Except as provided in subparagraphs (b) and (c), the set-aside percentage for a crop on a farm shall be based on a formula determined by the Secretary that will on a uniform basis require a greater set-aside percentage as projected production per farm increases. Such formula shall contain a minimum of 10 farm-size categories each separated by not less than a 1 percent set-aside.

"(B) ADJUSTMENT OF SET-ASIDE REQUIREMENTS.—Except as provided in subparagraph (C), the Secretary shall adjust the set-aside requirements for a crop of a commodity established under subparagraph (A) by an equal percentage in order to balance the projected supply and demand for the commodity.

"(C) MAXIMUM SET-ASIDE PERCENTAGE.—The set-aside percentage for a crop of a commodity for producers on a farm under this paragraph may not exceed 35 percent.

"(d) LAND DIVERSION PAYMENTS.—

"(1) IN GENERAL.—If the Secretary determines that the projected quantity of a commodity, in the absence of land diversion payments, will exceed the national marketing quota for the commodity, the Secretary may make land diversion payments to producers of the commodity who are eligible family farmers. Such land diversion payments shall be made to producers who, to the extent prescribed by the Secretary, devote to approved conservation uses an acreage of cropland on the farm in accordance with land diversion contracts entered into by the Secretary with such producers.

"(2) AMOUNT OF PAYMENTS.—The amounts payable to producers under land diversion contracts may be determined through the submission of bids for such contracts by producers in such manner as the Secretary may prescribe or through such other means as the Secretary determines appropriate. In determining the acceptability of contract offers, the Secretary shall take into consideration the extent of the diversion to be undertaken by the producers and the productivity of the acreage diverted.

"(3) LOCAL ECONOMY.—The Secretary shall limit the total acreage to be diverted under agreements in any county or local community so as not to affect adversely the economy of the county or local community.

"(4) PAYMENT LIMITATION.—The amount of land diversion payments shall be subject to the limitation on such payments prescribed in section 1001(1) of the Food Security Act of 1985 (7 U.S.C. 1308(1)).

"(e) CONSERVATION USES.—A producer of a commodity shall devote to locally approved conservation uses all acreage of the producer that the producer is required to set-aside under this section.

"(f) ADJUSTMENTS.—The Secretary may make such adjustments in the quantity of acreage the producer is required to set-aside under this section as the Secretary determines necessary—

"(1) to correct for abnormal factors affecting production; and

"(2) on submission by a producer of an approved plan to the county committee, to permit less intensive farming practices.

"(g) CONSERVATION PRACTICES.—

"(1) WEEDS AND EROSION.—Regulations issued by the Secretary under this section with respect to acreage required to be devoted to conservation uses shall require appropriate measures to protect such acreage against noxious weeds and wind and water erosion.

"(2) HAY AND GRAZING.—The Secretary may permit, subject to such terms and conditions as the Secretary may prescribe, all or any part of such acreage to be devoted to hay and grazing if the Secretary determines that such production is needed to provide an adequate supply of such commodities, is not likely to increase the cost of the price support program, and will not affect farm or ranch income adversely.

"(3) NONPROGRAM CROPS.—

"(A) LIMITATION.—The Secretary may limit the number of acres that may be devoted by a participating producer to a nonprogram crop if the

Secretary determines that such limitation is necessary—

"(i) to reduce the cost of the price support program;

"(ii) to maintain farm or ranch income; or

"(iii) to minimize farming practices that degrade the environment.

"(B) DEFINITION.—As used in subparagraph (A), the term 'nonprogram crop' means any agricultural commodity other than a commodity (as defined in section 601(1)).

"(h) WILDLIFE USES.—

"(1) IN GENERAL.—Any set-aside acreage may be devoted to wildlife food plots or wildlife habitats in conformity with standards established by the Secretary in consultation with wildlife agencies.

"(2) PAYMENTS FOR PRACTICES.—The Secretary may pay such amount as the Secretary considers appropriate of the cost of practices designed to carry out paragraph (1).

"(3) ADDITIONAL PAYMENTS FOR PUBLIC USE.—The Secretary may provide for an additional payment on such acreage in an amount determined by the Secretary to be appropriate in relation to the benefit to the general public if the producer agrees to permit, without other compensation, access to all or such portion of the farm, as the Secretary may prescribe, by the general public, for hunting, trapping, fishing, and hiking, subject to applicable State and Federal regulations.

"(i) AGREEMENTS.—

"(1) IN GENERAL.—A producer of a commodity shall execute an agreement with the Secretary that describes the means the producer will use to comply with this section not later than such date as the Secretary may prescribe.

"(2) TERMINATION OR MODIFICATION.—The Secretary may, by mutual agreement with such producer, terminate or modify any such agreement if the Secretary determines such action is necessary because of an emergency created by drought or other disaster or to prevent or alleviate a shortage in the supply of agricultural commodities.

"SEC. 608. MARKETING CERTIFICATES.

"(a) ISSUANCE.—At the time a producer is assigned a farm acreage allotment under section 606 for any crop year, the Secretary shall issue marketing certificates to such producer for each commodity to be produced during such crop year.

"(b) QUANTITY.—Except as provided in subsections (c) and (d), a marketing certificate issued to a producer for any commodity for any crop year shall authorize such producer to market, barter, or donate a quantity of such commodity determined by multiplying—

"(1) the number of acres the producer is permitted to plant as determined under section 607; by

"(2) the farm program payment yield for the farm of the producer for such commodity (as provided in section 609).

"(c) ON-FARM USE.—The Secretary shall reduce the quantity of a commodity that may be marketed, bartered, or donated under a marketing certificate to reflect the quantity of such commodity that is to be used for feed or other purposes on the farm of the producer.

"(d) SURPLUS QUANTITIES.—If the quantity of a commodity produced in a crop year exceeds the quantity of the commodity that may be marketed, bartered, or donated under a marketing certificate, the surplus quantity of such commodity may be—

"(1) stored during the current marketing year and marketed under a marketing certificate issued for the subsequent marketing year;

"(2) donated to the Commodity Credit Corporation in order to be made available to provide famine relief and assistance to other foreign countries under title II of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1721 et seq.); or

"(3) sold to the Commodity Credit Corporation, at a rate determined by the Secretary but no more than 50 percent of the loan level for such commodity determined under section 603, in order to be made available to provide such famine relief and assistance and to replenish the reserve.

"(e) ACQUISITION OF COMMODITIES.—A person may not purchase or otherwise acquire a quantity of a commodity from a producer in excess of the quantity of the commodity that may be marketed, bartered, or donated by such producer under a marketing certificate.

"(f) IMPORTS.—

"(1) AVAILABILITY.—The Secretary may make available to importers marketing certificates for a commodity or product thereof imported during the marketing year for which a national marketing certificate program is in effect for the commodity.

"(2) IMPORT LIMITATIONS.—The quantity of a commodity imported into the United States may not exceed the quantity of the commodity that may be imported under a restriction imposed under section 22 of the Agricultural Adjustment Act of 1933 (7 U.S.C. 624).

"(3) QUANTITY.—A marketing certificate applicable to a quantity of a commodity or product thereof issued to an importer shall authorize the importer to market, barter, or donate, without restriction, a quantity of the commodity or product equal to the quantity that would be permitted under such a marketing certificate.

"(4) MARKETING CERTIFICATES REQUIRED.—A commodity or product thereof may not be marketed, bartered or donated within the United States by an importer without a marketing certificate.

"(5) NON-TRANSFERABILITY.—A marketing certificate made available to a producer or importer of the commodity or product thereof shall not be transferable, except to the extent that the certificate accompany a commodity or product thereof that is marketed, bartered, of donated. Any such transfer that does not accompany the commodity or product shall invalidate the certificate.

"SEC. 609. FARM PROGRAM PAYMENT YIELDS.

"(a) IN GENERAL.—Except as provided in subsection (b) and notwithstanding any other provision of law, farm program payment yields for a farm under this title shall be determined in accordance with section 506.

"(b) METHOD OF ESTABLISHING YIELDS.—For purposes of this title, a producer on a farm shall select between the method described in subparagraph (A) or (B) of section 506(c)(1) to establish the farm program payment yield for the farm for a crop year.

"SEC. 610. FARMERS DISASTER RESERVE.

"(a) IN GENERAL.—The Secretary shall establish a farmers disaster reserve for each commodity for the 1988 through 2000 crop years.

"(b) INITIAL STOCKS.—The Secretary shall use stocks of commodities owned by the Commodity Credit Corporation to initially establish the reserve in accordance with section 604.

"(c) ELIGIBILITY.—

"(1) IN GENERAL.—Except as provided in paragraph (2), the Secretary shall compensate a producer with commodities from the reserve if the Secretary determines that as a result of drought, flood, or other natural disaster, or other condition beyond the control of the producer, the total quantity of a commodity the producer is able to harvest on any farm is less than the quantity determined by multiplying 90 percent of the quantity of the commodity the producer is authorized to market, barter, or donate under a marketing certificate issued under section 608.

"(2) FARMING PRACTICES.—A producer shall not be eligible to receive compensation under this section if the producer has not used acceptable farming practices, as determined by the county committee.

"(d) QUANTITY.—

"(1) IN GENERAL.—Except as provided in paragraph (2), the quantity of a commodity a producer is entitled to receive as compensation for a loss sustained during a crop year under subsection (c) shall equal the difference between—

"(A) 90 percent of the quantity of the commodity the producer is authorized to market, barter, or donate under a marketing certificate issued under section 608; and

"(B) the actual quantity of such commodity produced during such crop year.

"(2) LIMITATION.—The total value of commodities a producer may receive as compensation for any loss under subsection (c) may not exceed $360,000.

"(e) MAINTENANCE.—

"(1) DETERMINATION OF QUANTITY.—The Secretary shall determine the quantity of each commodity needed for each crop year to maintain an adequate reserve of the commodity under this section.

"(2) NATIONAL MARKETING QUOTA.—The Secretary shall establish the national marketing quota for each commodity under section 604 at a level that is sufficient to maintain an adequate reserve of the commodity to carry out this section.

"SEC. 611. SOIL CONSERVATION.

"(a) IN GENERAL.—Notwithstanding any other provision of law, the Secretary shall require that producers on a farm in any area follow the conservation practices prescribed by the appropriate local soil conservation district for the area.

"(b) EXCEPTION.—In areas in which no soil conservation district exists, the county committee shall determine appropriate conservation practices.

"SEC. 612. PENALTIES.

"(a) NONCOMPLIANCE WITH PROGRAM.—

"(1) NONCOMPLIANCE WITH TERMS.—Except as provided in subsection (b), if a producer fails to comply with any term or condition of the program conducted under this title, the producer shall be ineligible for any farm acreage allotment, loan, purchase, or payment authorized under this title.

"(2) UNAUTHORIZED MARKETINGS.—If a producer or importer markets, barters, or donates a commodity without a marketing certificate required under section 608 or markets, barters, or donates a quantity of a commodity for commercial use in excess of the quantity of the commodity the producer or importer is permitted to market, barter, or donate under such certificate, the Secretary shall—

"(A) assess a fine against such producer or importer in an amount equal to 3 times the value of the commodities so marketed; or

"(B) in the case of a producer, increase the number of acres such producer is required to set-aside under section 607 during the succeeding crop year by a number of acres that, if planted, would result in the production of a quantity sufficient to satisfy the fine referred to in subparagraph (A).

"(3) UNAUTHORIZED PURCHASES.—If a person purchases or otherwise acquires a quantity of a commodity from a producer or importer in excess of the quantity of the commodity may be marketed, bartered, or donated by such producer or importer under a marketing certificate issued under section 608, the Secretary shall assess a fine against such person in an amount equal to 3 times the value of the commodities so purchased or acquired.

"(b) MODIFICATIONS.—

"(1) SECRETARY.—If a producer fails to comply fully with the terms and conditions of the program conducted under this section and the Secretary believes the failure should not preclude the making of a farm acreage allotment, or loans, purchases, or payments to the producer, the Secretary may make an allotment or loans, purchases, and payments in such quantities as the Secretary determines to be equitable in relation to the seriousness of the failure of the producer.

"(2) COMMITTEES.—The Secretary may authorize the county and State committees established under section 8(b) of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590h(b)) to waive or modify deadlines and other program requirements in cases in which lateness or failure to meet such other requirements does not affect adversely the operation of the program.

"SEC. 613. REGULATIONS.

"The Secretary shall issue such regulations as the Secretary determines necessary to carry out this title.

"SEC. 614. COMMODITY CREDIT CORPORATION.

"The Secretary shall carry out the program authorized by this title through the Commodity Credit Corporation.

"SEC. 615. PAYMENTS.

"(a) ASSIGNMENT.—The provisions of section 8(g) of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590h(g)) (relating to assignment of payments) shall apply to payments under this title.

"(b) SHARING.—The Secretary shall provide for the sharing of payments made under this title for any farm among the producers on the farm on a fair and equitable basis.

"SEC. 616. CROP ACREAGE BASES.

"(a) IN GENERAL.—Except as provided in subsection (b), the crop acreage base for a commodity for a farm under this title shall be determined in accordance with section 504.

"(b) SALE OF FARMS.—

"(1) REDUCTION.—The Secretary shall reduce the crop acreage base of a farm under this title by 10 percent each time the farm is sold to a new owner who is not an eligible family farmer.

"(2) REDISTRIBUTION.—Except as provided in paragraph (3), in order to correct inequities in the distribution of crop acreage bases and to reward sound conservation practices, the county committee may redistribute any crop acreage base that is made available as the result of paragraph (1) to producers in the county in the following order of priority:

"(A) An existing producer in the county who as the result of—

"(i) sound conservation practices (including crop rotation practices), has an inequitable crop acreage base; or

"(ii) unusual or special circumstances, demonstrates a need for additional crop acreage base.

"(B) A beginning producer in the county who wishes to begin farming.

"(C) An existing producer in the county who demonstrates sound conservation practices.

"(3) MINORITY PRODUCERS.—In the case of a county in which at least 5 percent of the agricultural producers are members of a minority, the county committee shall distribute to minority producers a percentage of the crop acreage base under subparagraphs (B) and (C) of paragraph (1) that is at least equal to the percentage of the agricultural producers in the county who are members of a minority.".

SEC. 102. SUSPENSION OF PERMANENT PROGRAM.

(a) WHEAT.—

(1) NONAPPLICABILITY OF CERTIFICATE REQUIREMENTS.—Sections 379d through 379j of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1379d

through 1379j) (which deal with marketing certificate requirements for processors and exporters) shall not be applicable to wheat processors or exporters during the period June 1, 1988, through May 31, 2001.

(2) SUSPENSION OF LAND USE, WHEAT MARKETING ALLOCATION, AND PRODUCER CERTIFICATE PROVISIONS.—Sections 331 through 336, 338, 339, 379b, and 379c of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1331 through 1336, 1338, 1339, 1379b, and 1379c) shall not be applicable to the 1988 through 2000 crops of wheat.

(3) SUSPENSION OF CERTAIN QUOTA PROVISIONS.—The joint resolution entitled "A joint resolution relating to corn and wheat marketing quotas under the Agricultural Adjustment Act of 1938, as amended", approved May 26, 1941 (7 U.S.C. 1330 and 1340), shall not be applicable to the crops of wheat planted for harvest in the calendar years 1988 through 2000.

(4) NONAPPLICABILITY OF SECTION 107.—Section 107 of the Agricultural Act of 1949 (7 U.S.C. 1445a) shall not be applicable to the 1988 through 2000 crops of wheat.

(b) FEED GRAINS.—Section 105 of the Agricultural Act of 1949 (7 U.S.C. 1444b) shall not be applicable to the 1988 through 2000 crops of feed grains.

(c) COTTON.—

(1) SUSPENSION OF BASE ACREAGE ALLOTMENTS, MARKETING QUOTAS, AND RELATED PROVISIONS.—Sections 342 through 346 and 377 of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1342 through 1346 and 1377) shall not be applicable to upland cotton of the 1988 through 2000 crops.

(2) COMMODITY CREDIT CORPORATION SALES PRICE RESTRICTIONS.—Effective only with respect to the period beginning August 1, 1988, and ending July 31, 2000, the tenth sentence of section 407 of the Agricultural Act of 1949 (7 U.S.C. 1427) is amended by striking out all through "110 per centum of the loan rate, and (2)" and inserting in lieu thereof the following: "Notwithstanding any other provision of law, (1) the Commodity Credit Corporation shall sell upland cotton for unrestricted use at the same prices as it sells upland cotton for export, in no event, however, at less than 115 percent of the loan rate for Strict Low Middling one and one-sixteenth inch upland cotton (micronaire 3.5 through 4.9) adjusted for such current market differentials reflecting grade, quality, location,

and other value factors as the Secretary determines appropriate plus reasonable carrying charges, and (2)".

(3) MISCELLANEOUS COTTON PROVISIONS.—Sections 103(a) and 203 of the Agricultural Act of 1949 (7 U.S.C. 1444(a) and 1446d) shall not be applicable to the 1988 through 2000 crops.

(4) SKIPROW PRACTICES.—Section 374(a) of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1374(a)) is amended by striking out "1990" and inserting in lieu thereof "2000".

(5) PRELIMINARY ALLOTMENTS FOR 2000 CROP OF UPLAND COTTON.—Notwithstanding any other provision of law, the permanent State, county, and farm base acreage allotments for the 1977 crop of upland cotton, adjusted for any underplantings in 1977 and reconstituted as provided in section 379 of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1379), shall be the preliminary allotments for the 2001 crop.

SEC. 103. CONFORMING AMENDMENTS TO TEMPORARY PROGRAM.

(a) WHEAT.—

(1) QUOTA PROVISIONS.—Sections 332 through 336 and 338 of the Agricultural Adjustment Act of 1938 (7 U.S.C. 1332 through 1336 and 1338) are repealed.

(2) FOOD SECURITY ACT OF 1985.—Section 308 of the Food Security Act of 1985 (99 Stat. 1383) is amended by striking out "1990" and inserting in lieu thereof "2000".

(3) AGRICULTURAL ACT OF 1949.—Section 107D of the Agricultural Act of 1949 (7 U.S.C. 1445b–3) is amended—

(A) in the matter preceding subsection (a), by striking out "Notwithstanding" and inserting in lieu thereof "Except as provided in section 502 and notwithstanding";

(B) by striking out "1990" each place it appears (other than in subsection (c)(1)(G)) and inserting in lieu thereof "2000"; and

(C) in subsection (c)(1)(G), by striking out "the 1990 crop" and inserting in lieu thereof "each of the 1990 through 2000 crops".

(b) FEED GRAINS.—

(1) FOOD SECURITY ACT OF 1985.—Section 401 of the Food Security Act of 1985 (99 Stat. 1395) is amended by striking out "1990" and inserting in lieu thereof "2000".

(2) AGRICULTURAL ACT OF 1949.—Section 105C of the Agricultural Act of 1949 (7 U.S.C. 1444e) is amended—

(A) in the matter preceding subsection (a), by striking out "Notwithstanding" and inserting in lieu thereof "Except as provided in section 502 and notwithstanding";

(B) by striking out "1990" each place it appears (other than in subsection (c)(1)(E)) and inserting in lieu thereof "2000"; and

(C) in subsection (c)(1)(E), by striking out "the 1990 crop" and inserting in lieu thereof "each of the 1990 through 2000 crops".

(3) PRICE SUPPORT FOR CORN SILAGE.—Section 403(a) of the Food Security Act of 1985 (7 U.S.C. 1444e–1(a)) is amended by striking out "1990" and inserting in lieu thereof "2000".

(c) COTTON.—

(1) FOOD SECURITY ACT OF 1985.—Section 501 of the Food Security Act of 1985 (99 Stat. 1407) is amended by striking out "1990" and inserting in lieu thereof "2000".

(2) AGRICULTURAL ACT OF 1949.—Section 103A of the Agricultural Act of 1949 (7 U.S.C. 1444–1) is amended—

(A) in the matter preceding subsection (a), by striking out "Notwithstanding" and inserting in lieu thereof "Except as provided in section 502 and notwithstanding";

(B) by striking out "1990" each place it appears (other than in subsection (c)(1)(D)) and inserting in lieu thereof "2000"; and

(C) in subsection (c)(1)(D), by striking out "the 1990 crop" and inserting in lieu thereof "each of the 1990 through 2000 crops".

(d) RICE.—

(1) FOOD SECURITY ACT OF 1985.—Section 601 of the Food Security Act of 1985 (99 Stat. 1419) is amended by striking out "1990" and inserting in lieu thereof "2000".

(2) AGRICULTURAL ACT OF 1949.—Section 101A of the Agricultural Act of 1949 (7 U.S.C. 1441–1) is amended—

(A) in the matter preceding subsection (a), by striking out "Notwithstanding" and inserting in lieu thereof "Except as provided in section 502 and notwithstanding";

(B) by striking out "1990" each place it appears (other than in subsections (a)(5)(A)(ii)(I) and (c)(1)(D)) and inserting in lieu thereof "2000";

(C) in subsection (a)(5)(A)(ii)(I), by striking out "and 1990" and inserting in lieu thereof "through 2000"; and

(D) in subsection (c)(1)(D), by striking out "the 1990 crop" and inserting in lieu thereof "each of the 1990 through 2000 crops".

(3) MARKETING CERTIFICATES.—Section 603(a) of the Food Security Act of 1985 (7 U.S.C. 1441-1a(a)) is amended by striking out "1991" and inserting in lieu thereof "2000".

(e) SOYBEANS.—

(1) FOOD SECURITY ACT OF 1985.—Section 801 of the Food Security Act of 1985 (99 Stat. 1441) is amended by striking out "1990" and inserting in lieu thereof "2000".

(2) AGRICULTURAL ACT OF 1949.—Section 201(i)(1) of the Agricultural Act of 1949 (7 U.S.C. 1446) is amended by striking out "1990" each place it appears and inserting in lieu thereof "2000".

(f) PAYMENT LIMITATIONS.—Section 1001 of the Food Security Act of 1985 (7 U.S.C. 1308) is amended by striking out "1990" and inserting in lieu thereof "2000".

(g) ADVANCE DEFICIENCY AND DIVERSION PAYMENTS.—

(1) FOOD SECURITY ACT OF 1985.—Section 1002 of the Food Security Act of 1985 (99 Stat. 1446) is amended by striking out "1990" and inserting in lieu thereof "2000".

(2) AGRICULTURAL ACT OF 1949.—Section 107C of the Agricultural Act of 1949 (7 U.S.C. 1445b-2) is amended by striking out "1990" each place it appears and inserting in lieu thereof "2000".

(h) ADVANCE RECOURSE COMMODITY LOANS.—

(1) FOOD SECURITY ACT OF 1985.—Section 1003 of the Food Security Act of 1985 (99 Stat. 1447) is amended by striking out "1990" and inserting in lieu thereof "2000".

(2) AGRICULTURAL ACT OF 1949.—The first sentence of section 424 of the Agricultural Act of 1949 (7 U.S.C. 1433c) is amended by striking out "1990" and inserting in lieu thereof "2000".

(i) INTEREST PAYMENT CERTIFICATES.—Section 1004 of the Food Security Act of 1985 (99 Stat. 1447) is amended by striking out "1990" and inserting in lieu thereof "2000".

(j) WHEAT AND FEED GRAIN EXPORT CERTIFICATE PROGRAMS.—

(1) FOOD SECURITY ACT OF 1985.—Section 1006 of the Food Security Act of 1985 (99 Stat. 1448)

is amended by striking out "1990" and inserting in lieu thereof "2000".

(2) AGRICULTURAL ACT OF 1949.—Section 107F of the Agricultural Act of 1949 (7 U.S.C. 1445b–5) is amended—

(A) by striking out "1990" each place it appears and inserting in lieu thereof "2000"; and

(B) by striking out "section 107D or 105C" each place it appears and inserting in lieu thereof "section 503".

(k) COMMODITY CREDIT CORPORATION SALES PRICE RESTRICTIONS.—Section 1007 of the Food Security Act of 1985 (99 Stat. 1451) is amended by striking out "1990" and inserting in lieu thereof "2000".

(l) MULTIYEAR SET-ASIDES.—Section 1010(1) of the Food Security Act of 1985 (7 U.S.C. 1445i(1)) is amended by striking out "1990" each place it appears and inserting in lieu thereof "2000".

(m) SUPPLEMENTAL SET-ASIDE AND ACREAGE LIMITATION AUTHORITY.—

(1) FOOD SECURITY ACT OF 1985.—Section 1011 of the Food Security Act of 1985 (99 Stat. 1454) is amended by striking out "1990" and inserting in lieu thereof "2000".

(2) AGRICULTURAL ACT OF 1949.—The first sentence of section 113 of the Agricultural Act of 1949 (7 U.S.C. 1445h) is amended—

(A) by striking out "section 105C or 107D" and inserting in lieu thereof "section 507"; and

(B) by striking out "1990" and inserting in lieu thereof "2000".

(n) EXTENSION OF THE RESERVE.—Section 302(i) of the Food Security Wheat Reserve Act of 1980 (7 U.S.C. 1736f–1(i)) is amended by striking out "1990" both places it appears and inserting in lieu thereof "2000".

(o) NORMALLY PLANTED ACREAGE.—Section 1001 of the Food and Agriculture Act of 1977 (7 U.S.C. 1309) is amended—

(1) by striking out "1990" each place it appears and inserting in lieu thereof "2000"; and

(2) in subsection (c)—

(A) by inserting "feed grains, upland cotton, rice, and soybeans," after "wheat,"; and

(B) by striking out "section 107D(d)(3)(A)" and inserting in lieu thereof "section 507".

(p) SPECIAL GRAZING AND HAY PROGRAM.—The first sentence of section 109(a) of the Agricultural Act of 1949 (7 U.S.C. 1445d(a)) is amended by striking out "1990" and inserting in lieu thereof "2000".

(q) ADVANCE ANNOUNCEMENT OF PROGRAMS.—Section 406(b) of the Agricultural Act of 1949 (7 U.S.C. 1426(b)) is amended by striking out "1991" each place it appears and inserting in lieu thereof "2000".

(r) DETERMINATIONS OF THE SECRETARY.—Section 1017(b) of the Food Security Act of 1985 (99 Stat. 1459) is amended by striking out "1990" and inserting in lieu thereof "2001".

(s) APPLICATION OF TERMS IN THE AGRICULTURAL ACT OF 1949.—Section 1018 of the Food Security Act of 1985 (99 Stat. 1459) is amended by striking out "1990" and inserting in lieu thereof "1991".

(t) NORMAL SUPPLY.—Section 1019 of the Food Security Act of 1985 (99 Stat. 1459) is amended by striking out "1990" and inserting in lieu thereof "2000".

(u) NATIONAL AGRICULTURAL COST OF PRODUCTION STANDARDS REVIEW BOARD.—Section 1014 of the Agriculture and Food Act of 1981 (7 U.S.C. 4110) is amended by striking out "1990" and inserting in lieu thereof "2000".

SEC. 104. PRODUCER RESERVE PROGRAM FOR WHEAT AND FEED GRAINS.

Section 110 of the Agricultural Act of 1949 (7 U.S.C. 1445e) is amended by adding at the end thereof the following new subsection:

"(j) The payment rate for the storage of grain under this section shall be the same for on-farm and commercial storage.".

SEC. 105. SURPLUS GRAIN PURCHASE PROGRAM FOR LIVESTOCK AND POULTRY PRODUCERS.

(a) IN GENERAL.—During the period beginning 30 days after the date of enactment of this Act, and ending 36 months thereafter or until stocks are depleted, whichever is earlier, the Secretary of Agriculture shall permit livestock and poultry producers to purchase surplus stocks of feed grains and wheat acquired by the Commodity Credit Corporation.

(b) TARGETED BENEFITS.—The Secretary shall—

(1) target purchases under this section to eligible family farmers (as defined in section 601(5) of the Agricultural Act of 1949); and

(2) not permit the producers on a farm or ranch under this section to purchase during a 12-month period grain valued at more than $50,000.

(c) SALE PRICE.—The sale price of grain purchased under this section shall be determined by the Secretary, but may not exceed—

(1) in the case of the 12-month period beginning 30 days after the date of enactment of this Act, an amount equal to the total investment of the Commodity Credit Corporation in the grain; and

(2) in the case of the period beginning after such period, an amount determined by the Secretary.

TITLE II—MILK MARKETING CONTROL

SEC. 201. ALTERNATIVE MILK PRICE SUPPORT PROGRAM.

(a) CONTINGENT SUSPENSION OF CURRENT MILK PRICE SUPPORT PROGRAM.—Section 201(d)(1)(A) of the Agricultural Act of 1949 (7 U.S.C. 1446(d)(1)(A)) is amended—

(1) by inserting "(i)" after "(A)"; and

(2) by adding at the end the following new clause:

"(ii) If a milk marketing base program is in effect under paragraph (7) for a program period (as defined in paragraph (7)(A)(vi)), this paragraph (other than this clause) and paragraph (2) shall not apply during the program period.".

(b) ALTERNATIVE MILK PRICE SUPPORT PROGRAM.—Section 201(d) of the Agricultural Act of 1949 (7 U.S.C. 1446) is amended—

(1) by redesignating paragraph (7) as paragraph (8); and

(2) by inserting after paragraph (6) the following new paragraph:

"(7)(A) For purposes of this paragraph:

"(i) The term 'beginning milk producer' means a milk producer who is in the process of establishing a milk production operation and who has not assumed the full control and risk of such operation for longer than 5 years.

"(ii) The term 'county committee' means the county committee established under section 8(b) of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590h(b)) for the county in which the farm is located.

"(iii) The term 'family member' means the spouse, parent, brother or sister, or child of an individual or a person to whom an individual stands in loco parentis.

"(iv) The term 'milk marketing allocation factor' means the ratio of—

"(I) the aggregate quantity of milk, as estimated by the Secretary, necessary to satisfy domestic consumption and exports of milk and the products of milk in the calendar year during which a milk marketing base program is in effect under this paragraph; to

"(II) the aggregate quantity of milk produced in the United States in the calendar year.

"(v)(I) Except as provided in subclause (II), the term 'milk marketing history' means the average annual quantity of milk marketed by a producer for commercial use in the 1981 through 1985 calendar years, excluding the year in which the largest quantity is marketed and the year in which the smallest quantity is marketed.

"(II) In the case of a producer who did not market milk for commercial use in each of the 1981 through 1985 calendar years, except as provided in subclause (III), the term 'milk marketing history' means the average quantity of milk marketed for commercial use in each of the 1981 through 1985 calendar years in which the producer so marketed milk.

"(III) In the case of a producer who marketed milk for commercial use in only 1 calendar year of the 1981 through 1985 calendar years, the term 'milk marketing history' means a reasonable quantity of milk, as determined by the Secretary.

"(IV) For any part of the 1981 through 1985 calendar years during which the producer participated in the milk diversion program under this subsection (as in effect before the date of enactment of the Family Farm Act), the marketings of milk by the producer shall be considered to be equal to the marketings of milk by the producer in the corresponding period of the marketing history determined under such diversion program.

"(vi) The term 'minority' means any individual who is a citizen of the United States and who is a Black, Puerto Rican, American Indian, Eskimo, Oriental, Aleut, or is a Spanish speaking individual of Spanish descent.

"(vii) The term 'program period' means a period of 4 calendar years that begins with the first calendar year for which the program is approved under section 602(b), except that such period may not begin before the 1988 calendar year nor end after the 2000 calendar years.

"(B)(i) In the case of a program period, if the Secretary determines that at least one-half of the producers voting in the referendum conducted under section 602(a) favor the program established in title VI and the national milk marketing base program described in this paragraph, clause (ii) shall apply during such program period.

"(ii) For each calendar year during which the national milk marketing base program is in effect:

"(I) Such program shall be in effect.

"(II) Subparagraphs (B) through (F) of paragraph (1), and paragraph (2), shall not be in effect.

"(III) The price of milk shall be supported at a rate equal to a specified percentage per hundredweight for milk containing 3.67 percent milkfat, as provided in the following table:

"The price of milk shall be supported during the:	Shall equal the following percent of the parity price of milk:
1988 calendar year	70 percent
1989 calendar year	71 percent
1990 calendar year	72 percent
1991 calendar year	73 percent
1992 calendar year	74 percent
1993 calendar year	75 percent
1994 calendar year	76 percent
1995 calendar year	77 percent
1996 calendar year	78 percent
1997 calendar year	79 percent
1998 through 2000 calendar year	80 percent.

"(iii) STUDY.—Prior to the beginning of the 1993 calendar year, the Secretary shall conduct a study of the economic impact of this Act and shall make recommendations to the Congress regarding continuation of the schedule in subsection (b).

"(C)(i) For each calendar year during which the national milk marketing base program is in effect, the Secretary shall determine individual milk marketing bases of milk producers.

"(ii) For the calendar year and subject to subparagraph (D), each milk producer shall have a milk marketing base equal to the product of—

"(I) 99 percent of the milk marketing history of the producer; and

"(II) the milk marketing allocation factor for the calendar year;

but not to exceed 99 percent of the milk marketing history.

"(D)(i) In addition to any quantity of marketing base determined for a producer under subparagraph (C), a producer shall have any quantity of marketing base transferred to the producer under clause (iii) by the county committee.

"(ii) There shall be available for each calendar year to the county committee for transfer among producers in accordance with clauses (iii) and (iv) an aggregate quantity of milk marketing base equal to the sum of—

"(I) a pro rata share of the product of the allocation factor and 1 percent of the aggregate of the milk marketing histories determined for the calendar year for all producers in the United States;

"(II) if the production allocation factor for the calendar year exceeds 100 percent, a pro rata share of the product of the percentage of the allocation factor in excess of 100 percent and the aggregate quantity of the milk marketing histories determined for the calendar year for all producers; and

"(III) the product of the allocation factor and any quantity of milk marketing history of a producer in the county who does not engage throughout the calendar year in the production of milk and who does not transfer such quantity under clause (vii) to another person.

"(iii) Subject to this subparagraph and to the extent practicable, the county committee shall transfer any milk marketing base of a producer on a farm that is available under subclause (I), (II), or (III) of clause (ii) tc persons in the following order of priority:

"(I) A family member who wishes to assume operation of the farm.

"(II) A beginning milk producer who is a new owner of a farm that has an existing milk marketing base.

"(III) An existing milk producer in the county who demonstrates to the committee that the producer is using sound management practices and that the additional milk marketing base is necessary to enable the producer to earn a net income that is at least as great the average net income of milk producers in the State.

"(IV) An existing producer in the county who demonstrates to the committee that the additional milk marketing base is necessary to permit a family member to form or join a partnership for the purpose of producing milk.

"(V) A beginning milk producer in the county.

"(VI) A beginning milk producer in the State.

"(VII) A beginning milk producer in the United States.

"(VIII) An agricultural commodity producer in the county, except that, in the case of a county in which at least 5 percent of the agricultural producers are members of a minority, the county committee shall transfer to minority producers a percentage of the milk marketing base that is at least equal to the percentage of the agricultural producers in the county who are members of a minority.

"(IX) An agricultural commodity producer in the State.

"(X) An agricultural commodity producer in the United States.

"(iv) Subject to this subparagraph and to the extent practicable, the county committee shall transfer any milk marketing base of a producer on a farm that is available under subclause (IV) of clause (ii) to milk producers who as determined by the committee—

"(I) demonstrate a need for additional milk marketing base as a result of unusual or special circumstances; or

"(II) are beginning milk producers.

"(v) Not less than 25 percent of the quantity of milk marketing base available under subclauses (II) through (IV) of clause (ii) shall be available for transfer by the county committee to beginning milk producers.

"(vi) No additional milk marketing base may be transferred under this subparagraph to—

"(I) a producer who has a milk marketing base exceeding 1,500,000 pounds (milk equivalent); or

"(II) a nonfarm corporation or investor.

"(vii) A producer may transfer the milk marketing history of the producer to a beginning milk producer by devise, sale, or lease of that portion of the farm on which is located the milk production facility owned by the producer. Except as provided in the preceding sentence, no producer may transfer a milk marketing history by sale, lease, exchange, or other means.

"(viii) The State director of the Agricultural Stabilization and Soil Conservation Service shall select an Appeal Committee composed of 5 milk producers who are members of county committees. The Appeal Committee shall be responsible for the prompt hearing and judgment of appeals of milk marketing base determinations and base transfers made under this paragraph.

"(E) In any calendar year for which a national milk marketing base program is in effect under this paragraph, no milk producer may market for commercial use any quantity of milk of his own production in excess of the milk marketing base established under this paragraph for the producer for the calendar year.

"(F)(i) Any milk producer who violates subparagraph (E) shall be liable for a civil penalty, to be assessed by the Secretary after reasonable notice and opportunity for a hearing on the record, equal to the product of—

"(I) 75 percent of the level of price support per hundredweight of milk having 3.67 percent milkfat in effect for the calendar year in which such violation occurs; and

"(II) the quantity of milk (measured in hundredweights) with respect to which such violation occurs.

"(ii) The Secretary may waive or reduce such penalty if the Secretary determines that the severity of such violation does not warrant the full payment of such penalty.

"(G)(i) Any milk producer against whom a civil penalty is assessed under subparagraph (F) may obtain review of such penalty in an appropriate district court of the United States by filing a civil action in such court not later than 30 days after such penalty is assessed.

"(ii) As part of the answer of the Secretary, the Secretary shall file in such court a certified copy of the record on which the findings and decision complained of are based.

"(iii) The findings of fact of the Secretary may be set aside only if found to be unsupported by substantial evidence.

"(H) The district courts of the United States shall have jurisdiction to review and enforce any civil penalty assessed under subparagraph (F).

"(I) Civil penalties collected under this paragraph shall be available to the Secretary for expenditure without fiscal year limitation to carry out title II of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1721 et seq.), to the extent provided in advance in appropriations Acts.

"(J) Each milk producer and each county committee shall provide to the Secretary such information and records as the Secretary may require to permit the Secretary to determine the milk marketing base of the producer.

"(K) The price of milk shall be supported through the purchase of milk and the products of milk, except that the Secretary shall limit such purchases, to the extent practicable, to a quantity that will provide adequate supplies and a sufficient reserve for programs conducted by the Federal Government.".

SEC. 202. APPLICATION OF AMENDMENTS.

The amendments made by section 201 shall not affect any liability of any person under section 201(d) of the Agricultural Act of 1949 (7 U.S.C. 1446(d)) as in effect before the date of the enactment of this Act.

TITLE III—AGRICULTURAL EXPORTS AND IMPORTS

Subtitle A—Agricultural Exports

SEC. 301. MULTILATERAL AGREEMENTS FOR FAMINE RELIEF.

Title II of the Agricultural Trade Development and Assistance Act of 1954 is amended by inserting after section 207 (7 U.S.C. 1726a) the following new section:

"Sec. 208. (a) To the maximum extent practicable, the President shall enter into multilateral agreements with other food exporting nations in order to fulfill the food aid requirements of needy nations.

"(b) To the maximum extent practicable, the President shall include such provisions in such agreements as are necessary to assure that recipient nations become self-sufficient in meeting their food requirements, including a requirement that food exporting nations pursue agricultural policies that are not harmful to recipient nations.

"(c) The Commodity Credit Corporation may use any surplus stocks of the Corporation to carry out this section and title I.".

Subtitle B—Agricultural Imports

SEC. 311. AGRICULTURAL IMPORTS.

The Secretary of Agriculture shall exercise the authority provided to the Secretary under section 22 of the Agricultural Adjustment Act (7 U.S.C. 624) to examine and report to the President with respect to any imported articles that—

(1) increase the cost of conducting agricultural price support activities;

(2) interfere with any program or operation undertaken by the Secretary; or

(3) reduce the quantity of products processed from agricultural commodities produced in the United States.

SEC. 312. LABELING IMPORTED FOOD.

(a) In General.—Section 304 of the Tariff Act of 1930 (19 U.S.C. 1304) is amended by adding at the end thereof the following new subsection:

"(i) Any agricultural product or processed agricultural product that contains any imported ingredient that accounts for a significant portion of the product's value or volume must be marked to indicate the country of origin of the imported ingredients.".

(b) Effective Date.—The amendment made by subsection (a) shall become effective 1 year after the date of enactment of this Act.

SEC. 313. DENIAL OF ENTRY TO PRODUCTS WITH PROHIBITED CHEMICAL RESIDUES.

(a) In General.—No article—

(1) which is—

(A) an agricultural commodity or product thereof,

(B) meat or a meat product, or

(C) a live animal of a kind chiefly used for human food, and

(2) which contains, or on which is present, any residue (or greater level) of any chemical,

may be entered in the customs territory of the United States if the use of such chemical in the production, processing, or marketing of such article in the United States is prohibited by law.

(b) Regulations.—The Secretary of the Treasury shall prescribe regulations that require, as a condition for the entry of any article described in subsection (a)(1) into the customs territory of the United States, that any importer of such an article submit a certification that the entry of such article would not violate the provisions of subsection (a).

TITLE IV—FOOD AND NUTRITION ASSISTANCE

Subtitle A—General Food and Nutrition Programs

SEC. 401. INCREASED FOOD ASSISTANCE BENEFITS.

(a) Food Stamp Program.—Section 8(a) of the Food Stamp Act of 1977 (7 U.S.C. 2017(a)) is amended—

(1) by inserting "(1)" after the subsection designation; and

(2) by adding at the end thereof the following new paragraph:

"(2) The Secretary shall increase the value of an allotment issued under paragraph (1) by an amount determined by the Secretary that is necessary to offset any increased cost of the thrifty food plan resulting from the Family Farm Act and the amendments made by such Act.".

(b) SCHOOL LUNCH PROGRAM.—Section 4(b) of the National School Lunch Act (42 U.S.C. 1753(b)) is amended by adding at the end thereof the following new paragraph:

"(3) The Secretary shall increase the national average lunch payment rate by an amount determined by the Secretary that is necessary to offset any increased cost of food resulting from the Family Farm Act and the amendments made by such Act.".

(c) SCHOOL BREAKFAST PROGRAM.—Section 4(b) of the Child Nutrition Act of 1966 (42 U.S.C. 1773(b)) (as amended by section 330(a) of Public Laws 99-500 and 99-591 and section 4210(a) of Public Law 99-661) is amended by adding at the end thereof the following new paragraph:

"(6) The Secretary shall increase the annually adjusted payment rate for each breakfast served under this Act and section 17 of the National School Lunch Act (42 U.S.C.

1766) by an amount determined by the Secretary that is necessary to offset any increased cost of food resulting from the Family Farm Act and the amendments made by such Act.".

(d) SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC).—Section 17(c) of the Child Nutrition Act of 1966 (42 U.S.C. 1786(c)) (as amended by section 342(a) of Public Laws 99-500 and 99-591 and section 4302(a) of Public Law 99-661) is amended by adding at the end thereof the following new paragraph:

"(5) The Secretary shall increase the amount of cash grants made to State agencies to carry out the program by an amount determined by the Secretary that is necessary to offset any increased cost of food resulting from the Family Farm Act and the amendments made by such Act.".

SEC. 402. AMENDMENTS TO THE FOOD STAMP ACT OF 1977.

(a) ADJUSTMENT OF COST OF THRIFTY FOOD PLAN.—The second sentence of section 3(o) of the Food Stamp Act of 1977 (7 U.S.C. 2012(o)) is amended—

(1) by striking out "and (8) on October 1, 1985, and each October 1 thereafter", and inserting "(8) on October 1, 1985,";

(2) by inserting after "size" the last place it appears the following:

"; and (9) on October 1, 1987, and each October 1 thereafter, increase the cost of such diet by the sum of the percentage (if any) specified in the last sentence of this subsection and any increase in the cost of the thrifty food plan for the twelve months ending the preceding June 30, and round the result to the nearest lower dollar increment for each household size"; and

(3) by adding at the end thereof the following: "For purposes of clause (9), the percentage shall be 5 per centum for the increase determined on October 1, 1987; 7.5 per centum for the increase determined on October 1, 1988; and 10 per centum for the increase determined on October 1, 1989.".

(b) EXCLUSION OF CERTAIN CHILD SUPPORT PAYMENTS FROM INCOME.—Section 5 of the Food Stamp Act of 1977 (7 U.S.C. 2014) is amended—

(1) in subsection (d) by amending clause (13) to read as follows: "(13) any child support payments received with respect to one or more dependent children, but not in excess of $50 per month"; and

(2) by striking out subsection (m).

(c) EXCESS SHELTER EXPENSE.—The proviso to the fourth sentence of section 5(e) of the Food Stamp Act of 1977 (7 U.S.C. 2014(e)) is amended—

(1) by striking out "$152" and inserting "$175"; and

(2) by striking out "$256, $210, $179, and $109 a month, respectively, adjusted October 1, 1986" and inserting "$305, $250, $213, and $130 a month, respectively, adjusted October 1, 1987".

(d) DEDUCTION FOR EXCESS MEDICAL EXPENSES OF THE ELDERLY AND DISABLED.—Clause (A) of the last sentence of section 5(e) of the Food Stamp Act of 1977 (7 U.S.C. 2014(e)) is amended by striking out "$35 a month" and inserting "the lesser of $35 a month or 5 per centum of monthly household income after any exclusions and before any deductions provided for in this section".

(e) LIMITATION ON RESOURCES.—Section 5(g) of the Food Stamp Act of 1977 (7 U.S.C. 2014(g)) is amended—

(1) in the first sentence by striking out "$2,000" and all that follows through "$3,000" and inserting "$2,250 or, in the case of a household that consists of or includes a member who is sixty years of age or older, $3,500"; and

(2) in the second sentence by striking out "$4,500" and inserting "$5,500".

(f)(1) PUBLIC INFORMATION.—Section 11(e)(1) of the Food Stamp Act of 1977 (7 U.S.C. 2020(e)(1)) is amended by inserting after "funds provided under this Act" the following: "except for activities, implemented at the discretion of the State agency, that provide program information (including program eligibility and benefit guidelines) to unemployed, disabled, or elderly persons who apply, or may be eligible, for participation in the program".

(2) ADMINISTRATIVE COSTS.—The first sentence of section 16(a) of the Food Stamp Act of 1977 (7 U.S.C. 2025(a)) is amended by striking out "and (4) fair hearings" and inserting "(4) fair hearings, and (5) activities providing program information to unemployed, disabled, or elderly persons".

(g) AUTHORIZATION OF APPROPRIATIONS.—Section 18 of the Food Stamp Act of 1977 (7 U.S.C. 2027) is amended in subsection (a)(1) in the second sentence by striking out "$13,936,000,000" and all that follows through "1990", and inserting "$15,500,000,000 for the fiscal year ending September 30, 1988; $16,300,000,000 for the fiscal year ending September 30, 1989; and $16,900,000,000 for the fiscal year ending September 30, 1990".

(h) REPORTS REGARDING EVALUATION OF FINANCIAL RESOURCES.—Not later than one hundred and eighty days after the date of the enactment of this Act, the Secretary of Agriculture shall submit, to the Speaker of the House of Representatives and the President pro tempore of the Senate—

(1) a report containing an evaluation of the budgetary and administrative consequences under the food

stamp program that would result from calculating the value of the financial resources (including licensed vehicles) of households solely on the basis of the amount of equity such households have in such resources; and

(2) a report containing an evaluation of the rules applied under the food stamp program to calculate the business earnings and financial resources of farmers, to determine how such rules might be changed to assess more accurately the needs of farmers for assistance under such program.

SEC. 403. AUTHORIZATION OF APPROPRIATIONS FOR EXPANDED PROGRAM OF FOOD, NUTRITION, AND CONSUMER EDUCATION.

Section 1588(a) of the Food Security Act of 1985 (7 U.S.C. 3175e(a)) is amended—

(1) by striking out "$6,000,000" and inserting "$15,000,000"; and

(2) by striking out "$8,000,000" and inserting "$17,000,000".

SEC. 404. ELIGIBILITY OF SIBLINGS AND CHILDREN FOR SEPARATE HOUSEHOLD STATUS UNDER FOOD STAMP PROGRAM.

The first sentence of section 3(i) of the Food Stamp Act of 1977 (7 U.S.C. 2012(i)) is amended—

(1) by striking out "or" at the end of clause (1);

(2) by inserting before the semicolon the following new clauses: "(3) a family of parents and children who live together, if the family lives with a sibling, 19 years of age or older, of one of the parents and the sibling parents prepares meals for home consumption separate and apart from the family, or (4) a family of parents living with children, if the family lives with grandparents and the grandparents prepare meals for home consumption separate and apart from the family"; and

(3) by inserting "(subject to clauses (3) and (4))" after "except that".

SEC. 405. FOOD STAMP INFORMATION FOR THE HOMELESS.

(a) AUTHORITY TO PROVIDE INFORMATION.—Section 11(e)(1)(A) of the Food Stamp Act of 1977 (7 U.S.C. 2020(e)(1)(A)) is amended by inserting "except, at the option of the State agency, food stamp informational activities directed at households that do not reside in permanent dwellings or households that have no fixed mailing addresses" after "Act".

(b) ADMINISTRATIVE EXPENSES.—The first sentence of section 16(a) of such Act (7 U.S.C. 2025(a)) is amended by striking out ", and (4)" and inserting in lieu thereof "(4) food stamp informational activities permitted under section 11(e)(1)(A), and (5)".

SEC. 406. EXPEDITED FOOD STAMP SERVICE.

Section 11(e)(9) of the Food Stamp Act of 1977 (7 U.S.C. 2020(e)(9)) is amended—

(1) by redesignating subparagraph (B) as subparagraph (D);

(2) by inserting after subparagraph (A) the following new subparagraphs:

"(B) provide coupons no later than five days after the date of application to any household that does not reside in a permanent dwelling and any household that does not have a fixed mailing address;

"(C) provide coupons no later than five days after the date of application to any household that has a combined gross income and liquid resources that is less than the monthly rent and utilities of the household; and"; and

(3) in subparagraph (D) (as redesignated), by striking out "the household" and inserting in lieu thereof "a household referred to in subparagraph (A), (B), or (C)".

SEC. 407. AUTHORIZATION OF APPROPRIATIONS FOR FOOD STORAGE AND DISTRIBUTION COSTS UNDER THE TEFAP PROGRAM.

The first sentence of section 204(c)(1) of the Temporary Emergency Food Assistance Act of 1983 (7 U.S.C. 612c note) is amended by striking out "$50,000,000 for each of the fiscal years ending September 30, 1986, and September 30, 1987" and inserting in lieu thereof "$50,000,000 for the fiscal year ending September 30, 1986, and $70,000,000 for each of the fiscal years ending September 30, 1987, and September 30, 1988".

SEC. 408. THE SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC).

(a) LIMITED STATE ENTITLEMENT.—Section 17(g) of the Child Nutrition Act of 1966 is amended—

(1) by inserting "(1)" after "(g)";

(2) in paragraph (1) (as so designated) by striking out the first sentence and inserting "For fiscal years 1988, and 1989, there are authorized to be appropriated such sums as may be necessary, and the Secretary shall pay to each State agency, such sums as may be necessary to provide supplemental foods, nutrition services, administration, and such other programs, services, and activities as are authorized for eligible women, infants, and children under this section.

(3) by inserting after paragraph (1) (as so designated) the following new paragraph:

"(2) Each State agency shall be entitled to payment under this section for each fiscal year in an amount equal to such State agency's allocation (as determined under subsections (h)(2) and (i)) of the authorization levels specified in paragraph (1).".

SEC. 409. INCREASE IN AUTHORIZATION FOR NUTRITION EDUCATION AND TRAINING.

Section 19(j)(2) of the Child Nutrition Act of 1966 is amended—

(1) in the first sentence by striking "ending on or before September 30, 1984,"; and

(2) in the second sentence by striking "$5,000,000" and inserting "$15,000,000".

Subtitle B—Nutrition Monitoring and Related Research

SEC. 410. SHORT TITLE.

This subtitle may be cited as the "National Nutrition Monitoring and Related Research Act of 1987".

SEC. 411. PURPOSE.

It is the purpose of this subtitle—

(1) to make more effective use of Federal and State expenditures for nutrition monitoring and to enhance the performance and benefits of current Federal nutrition monitoring and related research activities;

(2) to establish and facilitate the timely implementation of a coordinated National Nutrition Monitoring and Related Research Program and thereby establish a scientific basis for the maintenance and improvement of

the nutritional status of the United States population and the nutritional quality of the United States food supply;

(3) to establish and implement a comprehensive National Nutrition Monitoring and Related Research Plan to assess on a continuing basis the dietary and nutritional status and trends of the United States population, the state of the art, future monitoring and related research priorities, and the relevant policy implications;

(4) to establish and improve national nutritional and health status data and related data bases and networks, and to stimulate research necessary to develop uniform indicators, standards, methodologies, technologies, and procedures for nutrition monitoring;

(5) to establish a central Federal focus for the coordination, management, and direction of Federal nutrition monitoring activities;

(6) to establish mechanisms for addressing the nutrition monitoring needs of Federal, State, and local governments, the private sector, scientific and engineering communities, health care professionals, and the public in support of the objectives described in paragraphs (1), (2), (3), (4), and (5); and

(7) to provide for the conduct of such scientific research and development as may be necessary or appropriate in support of such objectives.

SEC. 412. DEFINITIONS.

As used in this subtitle—

(1) the term "nutrition monitoring and related research" means the set of activities necessary to provide timely information about the role and status of factors which bear upon the contribution that nutrition makes to the health of the United States population, including (A) dietary, nutritional, and health status measurements, (B) food consumption measurements, (C) food composition measurements and nutrition data banks, (D) dietary knowledge and attitude measurements, and (E) food supply and demand determinations;

(2) the terms "National Nutrition Monitoring and Related Research Program" and "coordinated program" mean the coordinated program established by section 413(a);

(3) the terms "Interagency Board for Nutrition Monitoring and Related Research" and "Board" mean the Federal coordinating body established by section 413(c);

(4) the terms "National Nutrition Monitoring and Related Research Plan" and "comprehensive plan"

mean the comprehensive plan established by section 415;

(5) the term "Joint Implementation Plan for a Comprehensive National Nutrition Monitoring System" means the plan of that title submitted to the Congress in September 1981 by the Department of Agriculture and the Department of Health and Human Services, pursuant to section 1428 of Public Law 95-113;

(6) the terms "National Nutrition Monitoring Advisory Council" and "Council" mean the advisory body established by section 419;

(7) the term "Secretaries" means the Secretary of Agriculture and the Secretary of Health and Human Services acting jointly; and

(8) the term "local government" means a local general unit of government or local educational unit.

SEC. 413. ESTABLISHMENT OF THE COORDINATED PROGRAM.

(a) There is hereby established a ten-year coordinated program, to be known as the National Nutrition Monitoring and Related Research Program, to carry out the purpose of this subtitle.

(b) The Secretaries shall be responsible for the implementation of the coordinated program.

(c) To assist in implementing the coordinated program, there is hereby established an Interagency Board for Nutrition Monitoring and Related Research, of which an Assistant Secretary in the Department of Agriculture (designated by the Secretary of Agriculture) and an Assistant Secretary in the Department of Health and Human Services (designated by the Secretary of Health and Human Services) shall be joint chairpersons. The remaining membership of the Board shall consist of additional representatives of Federal agencies, as deemed appropriate by the joint chairpersons of the Board. The Board shall meet no less often than once every three months.

(d) To establish a central focus and coordinator for the Nutrition Monitoring and Related Research Program, the Secretaries may appoint a full-time Administrator of Nutrition Monitoring and Related Research. The Administrator—

(1) shall be an individual who is eminent in the field of nutrition monitoring and related areas, and shall be selected on the basis of his or her established record of expertise and distinguished service; and

(2) shall administer the coordinated program with the advice and counsel of the joint chairpersons of the Board, shall serve as the focal point for the coordinated program, and shall serve as the Executive Secretary for the National Nutrition Monitoring Advisory Council.

SEC. 414. FUNCTIONS OF THE SECRETARIES.

.) The Secretaries, with the advice of the Board, shall—

(1) establish the goals of the coordinated program and identify the activities required to meet such goals, and identify the responsible agencies;

(2) update and integrate the Joint Implementation Plan for a Comprehensive National Nutrition Monitoring System into the coordinated program;

(3) assure the timely implementation of the coordinated program and the comprehensive plan established by section 415;

(4) include in the coordinated program and the comprehensive plan a competitive grants program, in accordance with the provisions of this title, to encourage and assist the conduct, by Federal and non-Federal entities on an appropriate matching funds basis, of research (including research described in section 415(a)(3)) which will accelerate the development of uniform and cost-effective standards and indicators for the assessment and monitoring of nutritional and dietary status and for relating food consumption patterns to nutritional and health status;

(5) include in the coordinated program and the comprehensive plan a grants program, in accordance with the provisions of this title, to encourage and assist

State and local governments in developing the capacity to conduct monitoring and surveillance of nutritional status, food consumption, and nutrition knowledge and in using such capacity to enhance nutrition services (including activities described in sections 415(a)(5) and 415(b)(9));

(6) include in the coordinated program an annual interagency budget for each fiscal year of the program;

(7) foster productive interaction between Federal efforts, State and local governments, the private sector, scientific communities, health professionals, and the public;

(8) contract with a scientific body, such as the National Academy of Sciences or the Federation of American Societies for Experimental Biology, to interpret available data analyses and to publish every two years, or more frequently if appropriate, a report on the dietary, nutritional and health-related status of the population of the United States and the nutritional quality of the national food supply; and

(9)(A) foster cost recovery management techniques, and (B) impose appropriate charges and fees for publications of the coordinated program, including print and electronic forms of data and analysis, and utilize the proceeds of such charges and fees for purposes of the program (except that no such charge or fee imposed upon an educational or other nonprofit organization shall exceed the actual costs incurred by the program in providing the publication or publications involved).

(b) the Secretaries shall submit to the President for transmittal to the Congress by January 15 of each year an annual report which shall—

(1) evaluate the progress of the program under this subtitle;

(2) summarize the results of such program components as are developed under section 415;

(3) analyze the dietary, nutritional and related health status of the United States population, the nutritional quality of the national food supply, the relevant policy implications of the findings, and future nutrition monitoring and related research priorities;

(4) include in full the annual report of the Council as specified in section 420; and

(5) include an executive summary of the report most recently published by the scientific body specified in subsection (a)(8).

SEC. 415. DEVELOPMENT OF THE COMPREHENSIVE NATIONAL NUTRITION MONITORING AND RELATED RESEARCH PLAN.

(a) The Secretaries, with the advice of the Board, shall prepare and implement a comprehensive plan for the coordinated program which shall be designed—

(1) to assess, collate, analyze, and report on a continuous basis the dietary and nutritional status and trends of the United States population (dealing with such status and trends separately in the case of preschool and school-age children, pregnant and lactating women, elderly individuals, low-income populations, blacks, Hispanics, and other minorities as appropriate), the state of the art, future monitoring and related research priorities, and relevant policy implications of the findings;

(2) to assess, analyze, and report on a continuous basis, for a representative sample of the low-income population, food and household expenditures, participation in food assistance programs, and periods experienced when resources were not sufficient to provide an adequate diet;

(3) to sponsor or conduct research necessary to develop uniform indicators, standards, methodologies, technologies, and procedures for conducting and reporting nutrition monitoring and surveillance;

(4) to develop and update a national dietary and nutritional status data bank, a nutrient data bank, and other data resources as required;

(5) to assist State and local agencies in developing procedures and networks for nutrition monitoring and surveillance; and

(6) to focus the activities of the Federal agencies.

(b) The comprehensive plan shall, as a minimum, include components to—

(1) maintain and coordinate the National Health and Nutrition Examination Survey (NHANES) and the Nationwide Food Consumption Survey (NFCS);

(2) provide by 1990 for the continuous collection, processing, and analysis of nutritional and dietary status data through a stratified probability sample of the United States population designed to permit statistically reliable estimates of high-risk groups and geopolitical and geographic areas and to permit accelerated data analysis (including annual analysis, as appropriate);

(3) maintain and enhance other Federal nutrition monitoring efforts such as the Centers for Disease Control Nutrition Surveillance Program and the Food and Drug Administration Total Diet Study, and, to the

extent possible, coordinate such efforts with the surveys described in paragraphs (1) and (2);

(4) incorporate, in the survey design, military and (where appropriate) institutionalized populations;

(5) complete the analysis and interpretation of NHANES and NFCS data sets collected prior to 1984 within the first year of the comprehensive plan;

(6) improve the methodologies and technologies, including those suitable for use by States and localities, available for the assessment of nutritional and dietary status and trends;

(7) develop uniform standards and indicators for the assessment and monitoring of nutritional and dietary status, for relating food consumption patterns to nutritional and health status, and for use in the evaluation of Federal food and nutrition intervention programs;

(8) establish national baseline data and procedures for nutrition monitoring;

(9) provide scientific and technical assistance, training, and consultation to State and local governments for the purpose of obtaining dietary and nutritional status data and developing related data bases and networks to promote the development of regional, State, and local data collection services to become an

integral component of a national nutritional status network;

(10) establish mechanisms to identify the needs of users of nutrition monitoring data and to encourage the private sector and the academic community to participate in the development and implementation of the comprehensive plan and contribute relevant data from non-Federal sources to promote the development of a national nutritional status network;

(11) compile an inventory of Federal, State, and non-Government activities related to nutrition monitoring and related research;

(12) focus on national nutrition monitoring needs while building on the responsibilities and expertise of the individual membership of the Board;

(13) administer the coordinated program, define program objectives, priorities, oversight, responsibilities, outcomes, and resources, and define the organization and management of the Board and the Council; and

(14) provide a mechanism for periodically evaluating and refining the coordinated program and the comprehensive plan which facilitates cooperation and interaction by State and local governments, the private sector, scientific communities, and health care profes-

sionals, and which facilitates coordination with non-Federal activities.

(c) The comprehensive plan shall allocate all of the projected functions and activities under the coordinated program among the various Federal agencies and offices that will be involved, and shall contain an affirmative statement and description of the function to be performed and activities to be undertaken by each of such agencies and offices in carrying out the coordinated program.

(d) The comprehensive plan—

(1) shall be submitted in draft form to the President for submission to the Congress, and for public review, within twelve months after the date of the enactment of this title;

(2) shall be available for public comment for a period of sixty days after its submission in draft form under paragraph (1) by means of publication in the Federal Register;

(3) shall be submitted in final form, incorporating such needed revisions as may arise from comments received during the review period, to the President for submission to the Congress within sixty days after the close of the period allowed for comments on the draft comprehensive plan under paragraph (2); and

(4) shall constitute the basis on which each agency participating in the coordinated program requests authorizations and appropriations for nutrition monitoring and related research during the ten-year period of the program.

(e) Nothing in this section shall be construed as modifying, or as authorizing the Secretaries or the comprehensive plan to modify, any provision of an appropriation title (or any other provision of law relating to the use of appropriated funds) which specifies (1) the department or agency to which funds are appropriated, or (2) the obligations of such department or agency with respect to the use of such funds.

SEC. 416. IMPLEMENTATION OF THE COMPREHENSIVE PLAN.

(a) The comprehensive plan shall be carried out during the period ending with the close of the ninth fiscal year following the fiscal year in which the comprehensive plan is submitted in its final form under section 415(d)(3) and—

(1) shall be carried out in accord with, and meet the program objectives specified in, section 415(a) and paragraphs (1) through (11) of section 415(b);

(2) shall be managed in accord with paragraphs (12) through (14) of section 415(b);

(3) shall be carried out, by the Federal agencies involved, in accord with the allocation of functions and activities under section 415(c); and

(4) shall be funded by appropriations which shall be made to such agencies pursuant to section 418 for each fiscal year of the program.

The Congress through its appropriate authorizing committees shall exercise continuing oversight over the coordinated program, taking into account the Secretaries' annual reports and such other information and data as may be developed.

(b) Nothing in this subtitle shall be deemed to grant any new regulatory authority or to limit, expand, or otherwise modify any regulatory authority under existing law, or to establish new criteria, standards, or requirements for regulation under existing law.

SEC. 417. SCIENTIFIC RESEARCH AND DEVELOPMENT IN SUPPORT OF COORDINATED PROGRAM AND COMPREHENSIVE PLAN.

The Secretaries shall provide for and coordinate the conduct, by the National Science Foundation, the National Aeronautics and Space Administration, the National Oceanic and Atmospheric Administration, the National Bureau of Standards, and other suitable Federal agencies, of such scientific research and development as may be necessary or appropriate in support of the coordinated program and the comprehensive plan and in furtherance of the purpose and objectives of this title.

SEC. 418. AUTHORIZATION OF APPROPRIATIONS.

(a) Authorizations and appropriations for the fiscal year in which the comprehensive plan is submitted in final form under section 415(d)(3) and for the nine succeeding fiscal years, for purposes of carrying out the coordinated program and implementing the comprehensive plan, shall be requested by the Secretaries and by each of the agencies which are allocated responsibilities under the coordinated program pursuant to section 415(c), in a separate line item of the budget of the agency involved and consistent with the interagency budget for the coordinated program; and to the maximum extent feasible such appropriations shall be provided on a three-year basis, subject to annual authorization Acts hereafter enacted.

(b) Nothing in this subtitle is intended either (1) to authorize the appropriation or require the expenditure of any funds in excess of the amount of funds which would be authorized or expended for the same purposes in the absence of the coordinated program, or (2) to limit the authority of any of the participating agencies to request and receive funds for those purposes (for use in the coordinated program) under other laws.

SEC. 419. ESTABLISHMENT OF THE COUNCIL.

(a)(1) The President shall establish, within ninety days after the date of the enactment of this Act, a National Nutrition Monitoring Advisory Council. The Council shall assist in carrying out the purpose of this title, shall provide scientific and technical advice on the development and implementation of the coordinated program and comprehensive plan, and shall serve in an advisory capacity to the Secretaries.

(2) The Council shall consist of eleven voting members, of whom—

(A) seven members shall be appointed by the President; and

(B) four members shall be appointed by the Congress—one by the Speaker of the House of Representatives, one by the minority leader of the House of Representatives, one by the President pro tempore of the Senate, and one by the minority leader of the Senate.

(3) The Council shall also include the joint chairpersons of the Board as ex officio nonvoting members.

(b) The persons appointed to the Council—

(1) shall be eminent in the fields of administrative dietetics, clinical dietetics, community nutrition research, public health nutrition, nutrition monitoring and surveillance, nutritional biochemistry, food composition and nutrient analysis, health statistics management, epidemiology, food technology, clinical medicine, public administration, health education, nutritional anthropology, food consumption patterns, food assistance programs, agriculture, and economics; and

(2) shall be selected solely on the basis of established records of distinguished service.

(c) The persons appointed to the Council by the President shall include—

(1) one member who is a director of a nutrition research unit which is primarily supported by Federal funds, and who has a specialized interest in nutrition monitoring;

(2) one member who is an employee of a State government and who has a specialized interest in nutrition monitoring;

(3) one member who is an employee of a local government and who has a specialized interest in nutrition monitoring; and

(4) one member who is an appointed representative of the Food and Nutrition Board, National Academy of Sciences.

(d) The Council membership shall at all times have representatives from various geographic areas, the private sector, academia, scientific and professional societies, minority organizations, and public interest organizations.

(e) The Chairperson of the Council shall be elected from and by the Council membership. The term of office of the Chairperson shall not exceed five years. In case a vacancy occurs in the Chairpersonship, the Council shall elect a member to fill such vacancy.

(f) The term of office of each of the voting members of the Council shall be five years; except that of the seven members first appointed by the President, one shall be appointed for a term of two years, three for terms of three years, and three for terms of four years, as designated by the President at the time of appointment. Any member elected to fill a vacancy occurring prior to the expiration of the term for which his or her predecessor was appointed shall be elected for the remainder of such term. No member shall be eligible to serve continuously for more than two consecutive terms.

(g) The Council members shall be appointed or designated (without regard to the requirements of the Federal Advisory Committee Act) not later than ninety days after the date of the enactment of this Act.

(h) The Council shall meet on a regular basis at the call of the Chairperson, or upon the written request of one-third of the members. A majority of the appointed members of the Council shall constitute a quorum.

(i) Appointed members of the Council shall not be employed by the Federal Government, and shall be allowed travel expenses as authorized by section 5703 of title 5, United States Code.

(j) The Administrator of Nutrition Monitoring and Related Research (if appointed under section 413(d)) shall serve as the Executive Secretary of the Council.

SEC. 420. FUNCTIONS OF THE COUNCIL.

The Council shall—

(1) provide scientific and technical advice on the development and implementation of all components of the coordinated program and the comprehensive plan;

(2) evaluate the scientific and technical quality of the comprehensive plan and the effectiveness of the coordinated program;

(3) recommend to the Secretaries, on an annual basis, means of enhancing the comprehensive plan and the coordinated program; and

(4) submit to the Secretaries an annual report which shall contain the components specified in paragraphs (2) and (3), and which shall be included in full in the Secretaries' annual report to the President for transmittal to the Congress as specified in section 414(b).

SEC. 421. ESTABLISHMENT OF DIETARY GUIDELINES.

(a) The Secretaries shall issue and publish basic dietary guidelines for the general population based on scientific knowledge and the dietary patterns and nutritional status of the population.

(b)(1) Any Federal agency planning to issue dietary guidance shall submit the text of the proposed guidance to the Secretaries for review prior to release. The Secretaries shall determine within thirty days from the date such proposed guidance is submitted whether the proposed guidance is basic dietary guidance for the general population.

(2) If the Secretaries determine that any proposed dietary guidance is basic dietary guidance for the general population the Secretaries shall within a period of one hundred and eighty days from the date such determination is made review such proposed guidance; and the guidance shall not be issued until the Secretaries have theretofore approved the proposed materials and notified the head of the agency of such approval. If the Secretaries fail to express any objection within that one hundred and eighty-day period, the submitting agency may release the dietary guidance.

TITLE V—FINANCIAL ASSISTANCE

Subtitle A—Farm Debt Restructuring Program

CHAPTER 1—ENTITLEMENT TO DEBT RESTRUCTURING AID

SEC. 511. ENTITLEMENT.

Each eligible farm borrower who resides in a qualifying State described in chapter 2 and enters into a qualified debt restructuring agreement described in chapter 3 with the farm creditors of the borrower shall be entitled to Federal debt restructuring aid under chapter 4.

CHAPTER 2—QUALIFYING STATES

SEC. 521. QUALIFYING STATES.

(a) IN GENERAL.—A State is a qualifying State if the State is not described in section 551(d) and the Secretary of Agriculture determines that the State meets the following requirements:

(1) FARM LOAN MEDIATION PROGRAM IN EFFECT.—The State must have in effect a farm loan mediation program which meets the requirements of section 522.

(2) COLLECTION ACTION PRECEDED BY NOTIFICATION OF BORROWER OF AVAILABILITY OF STATE MEDIATION SERVICES AND FEDERAL DEBT RESTRUCTURING AID UNDER CHAPTER 4.—State law requires that, not less than 14 days before a person's farm creditor engages in conduct described in any paragraph of subsection (a) of section 362 of title 11, United States Code (but not described in any paragraph of subsection (b) of such section), with respect to the person, the creditor—

(A) notify the person that—

(i) the creditor intends to engage in such conduct;

(ii) the person may apply to the farm loan mediation program of the State to obtain mediation services with respect to any farm loan made to the person;

(iii) the person must apply to such program within 14 days after receipt of the notice in order to be eligible to receive Federal debt restructuring aid under chapter 4; and

(iv) such conduct of the creditor will be suspended during the pendency of State mediation with respect to the loan; and

(B) prominently include on such notice an address and telephone number at which information may be obtained by any person about—

(i) the farm loan mediation program of the State;

(ii) obtaining Federal debt restructuring aid under chapter 4; and

(iii) obtaining help in analyzing the person's financial situation, developing alternative debt restructuring proposals, and, if debt restructuring aid under chapter 4 is desired, applying for such aid and preparing the financial disclosure statement required to accompany such an application.

(3) STATE MUST PROVIDE FARM COUNSELING, ETC., SERVICES.—

(A) IN GENERAL.—State law requires the State—

(i) to make farm management counseling and technical support available to any person to whom a farm loan has been made and who faces substantial financial difficulties, for not more than a reasonable fee; and

(ii) to provide to such a person, for not more than a reasonable fee, all financial advice necessary for such person—

(I) to prepare a proposal for the restructuring of the farm loans made to the person; and

(II) to analyze proposals made by the person's farm creditors for the restructuring of such loans.

(B) USE OF CERTAIN COMMUNITY-BASED ORGANIZATIONS AND EDUCATIONAL INSTITUTIONS.—State law requires the State to give priority to community-based organizations and educational institutions with an established history of service to family farming enterprises, in the provision of any service described in subparagraph (A) which is to be provided on a contractual basis.

(b) DETERMINATION BY SECRETARY.—Within 15 days after the Secretary receives from the Governor of a State a description of the farm loan mediation program of the State and a statement certifying that the State meets all the requirements of subsection (a), the Secretary shall determine whether the State is a qualifying State.

SEC. 522. MEDIATION PROGRAM.

(a) IN GENERAL.—The farm loan mediation program of a State meets the requirements of this section if the program is constituted as follows:

(1) TRAINING OF MEDIATORS.—The head of the mediation program (hereinafter in this subtitle referred to as the "Director") must select and train for each county or other local region of the State mediators in such numbers as the Director determines are necessary to carry out the duties of mediators under the program, with procedures appropriate to ensure reasonable competency (including a basic understanding of Federal and State agricultural debt relief programs and Federal income support and agricultural price support programs), and lack of bias.

(2) ACCEPTANCE OF APPLICATIONS FOR MEDIATION.—The mediation program must accept applications for mediation from any person who receives a notice described in subsection (d) or (e) of section 305 of title 11, United States Code, and from any other person as the State determines is appropriate.

(3) ACTIONS BY MEDIATION PROGRAM AFTER RECEIPT OF APPLICATION.—On receipt of an application for mediation from any person described in paragraph (2), the Director shall do the following:

(A) NOTIFY FINANCIAL COUNTERPARTS INVOLVED.—Notify each financial counterpart of the person that the person has applied for mediation.

(B) APPOINT MEDIATOR.—Appoint a mediator to facilitate negotiations between the person and each financial counterpart of the person.

(4) INITIAL MEETING.—The mediator appointed to facilitate negotiations between a person and the person's financial counterpart must arrange for an initial meeting to be held between such persons within 14 days after the date the Director receives the application.

(5) DUTIES OF MEDIATOR DURING NEGOTIATIONS.—The program must require mediators to do at least the following to facilitate negotiations:

(A) Listen to each person desiring to be heard.

(B) Advise each person as to the existence of available assistance programs.

(C) Attempt to mediate between the person and each financial counterpart of the person.

(D) Encourage each person to adjust, refinance, or provide for the payment of the debts involved.

(E) Advise, counsel, and assist the person and each financial counterpart of the person to arrive at an agreement for the future conduct of their financial relations.

(F) Obtain a copy of any qualified debt restructuring agreement reached by the person and each financial counterpart of the person.

(G) Ensure that all parties to the mediation sign the agreement.

(H) Transmit a copy of the agreement to the County Emergency Debt Restructuring Committee which has aid jurisdiction under chapter 4 with respect to the county in which the greatest percentage of the borrower's farming operations are conducted.

(6) Good faith participation.—The program must contain reasonable guidelines to ensure that each person (or representative of the person with the authority to enter into contracts on behalf of the person) and each financial counterpart of the person (or representative of such financial counterpart with the authority to enter into contracts on behalf of such financial counterpart) participates in good faith in efforts to restructure the loans involved by attending all mediation meetings and providing all relevant financial information.

(7) Mediation period.—The program must provide for mediation with respect to the farm loans made by or to a person, during a period of not less than 42 days beginning the date the program receives the person's application for mediation.

(b) Financial Counterpart Defined.—For purposes of subsection (a), the term "financial counterpart" means, with respect to a person who has applied for mediation after receipt of a notice described in—

(1) subsection (d) of section 305 of title 11, United States Code, the farm creditors of the person; or

(2) subsection (e) of section 305 of title 11, United States Code, the person who sent such notice.

CHAPTER 3—QUALIFIED DEBT RESTRUCTURING AGREEMENTS

SEC. 531. QUALIFIED DEBT RESTRUCTURING AGREEMENTS.

(a) In General.—A qualified debt restructuring agreement is any agreement entered into by a person and the person's farm creditors, which has the following net effects on the loans involved:

(1) Principal writedown; interest rate reduction, etc.—

(A) Principal writedown.—The aggregate outstanding principal of all loans made to the person by the person's farm creditors is reduced by an amount equal to at least 75 percent of—

(i) the aggregate outstanding principal; reduced by

(ii) the fair market value of all property securing such loans.

(B) Interest rate reduction.—The weighted average interest rate of the loans made to the person by the person's farm creditors is reduced to a rate equal to at most the weighted average of the standard rates charged by the person's farm creditors on new loans with comparable maturities for similar purposes to preferred agricultural borrowers.

(C) No points charged.—Neither loan origination fees nor discount points are to be charged with respect to any loan restructured in accordance with subparagraph (A) or (B).

(2) Timely payments to be made under restructuring plan.—Subject to the approval of the agreement by the County Emergency Debt Restructuring Committee of the county in which the person resides, the person promises to make timely principal and interest payments with respect to any loan made to the person by any of the person's farm creditors under payment schedules which take into account the principal writedowns and interest rate reductions necessary to meet the requirements of paragraph (1).

(b) Definitions.—

(1) Weighted average interest rate.—As used in subsection (a)(1)(B), the term "weighted average interest rate" means, with respect to the loans made to a person by the person's farm creditors, the aggregate of the adjusted interest rates of such loans.

(2) Adjusted interest rate.—As used in paragraph (1), the term "adjusted interest rate" means, with respect to a loan and a person's farm creditors, an amount equal to—

(A) the interest rate of the loan; multiplied by

(B) a percentage equal to—

(i) the outstanding principal of the loan; divided by

(ii) the aggregate outstanding principal of all loans made to the person by the person's farm creditors.

(3) WEIGHTED AVERAGE OF THE STANDARD RATES.—As used in subsection (a)(1)(B), the term "weighted average of the standard rates" means, with respect to rates charged by a person's farm creditors on new loans with comparable maturities for similar purposes to preferred agricultural borrowers, the aggregate of the adjusted standard rates of such creditors.

(4) ADJUSTED STANDARD RATE OF A CREDITOR.—As used in paragraph (3), the term "adjusted standard rate of a creditor" means, with respect to a person and the person's farm creditors, an amount equal to—

(A) the standard rate charged by the creditor on new loans with comparable maturities for similar purposes to preferred agricultural borrowers; multiplied by

(B) a percentage equal to—

(i) the aggregate outstanding principal of all loans made to the person by the creditor; divided by

(ii) the aggregate outstanding principal of all loans made to the person by the person's farm creditors.

CHAPTER 4—DEBT RESTRUCTURING AID

SEC. 541. COUNTY EMERGENCY DEBT RESTRUCTURING COMMITTEES.

(a) ESTABLISHMENT.—Within 45 days after the Secretary determines that any State is a qualifying State, the Secretary of Agriculture shall establish a committee, for each county of the State, to be known as the County Emergency Debt Restructuring Committee (hereinafter in this subtitle referred to as the "Committee").

(b) MEMBERSHIP OF COMMITTEES.—

(1) COMPOSITION.—The Committee for any county shall be composed of—

(A) the county committee of the Agricultural Stabilization and Conservation Service;

(B) the committee established under section 332(a) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1982(a)) for the county; and

(C) such other individuals as the Secretary may appoint to the Committee in accordance with paragraph (2) to ensure that the interests of socially disadvantaged individuals (as defined in section 8(a)(5) of the Small Business Act (15 U.S.C. 637(a)(5))) who are residents of the county are fairly and proportionately represented.

(2) GUIDELINES FOR APPOINTMENT OF INDIVIDUALS TO REPRESENT INTERESTS OF SOCIALLY DISADVANTAGED INDIVIDUALS.—The Secretary may appoint members of any group referred to in section 8(a)(5) of the Small Business Act (15 U.S.C. 637(a)(5)) to the Committee for any county in such numbers as may be required to ensure that the percentage of the members of the Committee who are members of such group roughly approximates the percentage of the farm population of the county who are members of such group.

(c) APPLICATION FOR AID; FINANCIAL DISCLOSURE.—Any person may apply to the Committee for debt restructuring aid under this subtitle by filing with their application—

(1) a financial disclosure statement detailing the person's assets, expenses, income, and loan obligations as of the application date; and

(2) a statement naming each other person with a beneficial interest in any farm property a mortgage or lien on which secures a farm loan made to the person.

(d) DETERMINATION OF ELIGIBILITY FOR DEBT RESTRUCTURING AID.—Within 7 days after the Committee receives any application, the Committee shall determine whether—

(1) the person is an eligible farm borrower; and

(2) the greatest percentage (by gross sales) of the person's farming operations are conducted in the county with respect to which the Committee has aid jurisdiction under this subtitle.

(e) DETERMINATION OF AMOUNTS AND KINDS OF AID TO BE GIVEN TO ELIGIBLE FARM BORROWER IF QUALIFIED DEBT RESTRUCTURING AGREEMENT REACHED.—

(1) IN GENERAL.—

(A) LOAN AMOUNTS.—The Committee shall determine an amount calculated in accordance with subsection (f)(1) which would be loaned annually to any person described in paragraphs (1) and (2) of subsection (d) if the person and the person's farm creditors were to enter into a qualified debt restructuring agreement described in chapter 3.

(B) AMOUNT TO BE GRANTED IN LIEU OF LOANS.—The Committee shall determine an amount calculated in accordance with subsection (f)(2) which would be paid as a grant to any person described in subsection (d) if the person and the person's farm creditors were to enter into a qualified debt restructuring agreement described in chapter 3 and the person were to elect to receive such payment in lieu of all loans to which the person would otherwise have been entitled under this subtitle.

(2) TIMING.—The Committee shall make the determinations described in paragraph (1) with respect to any person described in subsection (d) within the 7-day period described in subsection (d).

(f) CALCULATION OF AMOUNTS.—

(1) LOAN AMOUNTS.—An amount is calculated in accordance with this paragraph with respect to a person if the amount is equal to the lesser of—

(A) $30,000; or

(B) the sum of the payments which the person would be obligated to make to the person's farm creditors in a 12-month period under a qualified debt restructuring agreement described in chapter 3, reduced by the sum of—

(i) the amount which the Committee determines the person would be able to pay such creditors without unduly impairing the person's standard of living and without regard to any amount which may be loaned to the person by the Committee; and

(ii) twice the amount by which the annual average nonfarm related income of the person for the 4 calendar years preceding the calendar year in which this subtitle takes effect exceeds $30,000.

(2) GRANT AMOUNT.—An amount is calculated in accordance with this paragraph with respect to a person if the amount is equal to—

(A) the amount calculated in accordance with paragraph (1) with respect to the person, multiplied by

(B) the coupon equivalent yield on 52-week Treasury bills issued under section 3104 of title 31, United States Code, at the last auction of such bills by the Department of the Treasury before the calculation is made.

(g) ELIGIBLE FARM BORROWERS NOTIFIED OF AID AMOUNTS.—Within 3 days (excluding Saturdays, Sundays, and legal public holidays) after the Committee determines that a person is described in paragraphs (1) and (2) of subsection (d), the Committee shall notify the person of the amounts determined under subsection (e) which would be loaned annually to the person, or paid as a grant to such person in lieu of such loans, if the person and the person's farm creditors were to enter into a qualified debt restructuring agreement described in chapter 3.

(h) APPROVAL OF DEBT RESTRUCTURING AGREEMENTS.—

(1) IN GENERAL.—The Committee shall approve any qualified debt restructuring agreement transmitted to the Committee under section 522(a)(5)(H) with respect to any person described in paragraphs (1) and (2) of subsection (d) if the Committee determines that the agreement is likely to enable the person to operate, and the person demonstrates a reasonable ability to maintain, a financially viable farming business for at least 5 years.

(2) TIMING.—The Committee shall make the determination described in paragraph (1) with respect to any agreement, and shall notify the borrower involved, within 21 days after the Committee receives the agreement.

(i) APPEALS.—

(1) ESTABLISHMENT OF REVIEW BOARD.—The Secretary shall establish a board (hereinafter in this subtitle referred to as the "Review Board") to review any determination made by the Committee with respect to which an appeal is brought under paragraph (2).

(2) RIGHT TO APPEAL.—If the Committee disapproves any qualified debt restructuring agreement entered into by a person and the person's farm creditors, the person may appeal such disapproval to the Review Board within 14 days after the date the Committee notifies the person of the disapproval.

(3) PROCEDURAL RULES GOVERNING APPEALS.—

(A) STANDARD OF REVIEW.—

(i) AFFIRMANCE.—The Review Board shall affirm any disapproval described in paragraph (2) if the preponderance of the credible information provided to the Committee supports the disapproval.

(ii) REVERSAL.—The Review Board shall reverse any disapproval described in paragraph (2) and approve the agreement involved if it is not the case that the preponderance of the credible information provided to the Committee supports the disapproval.

(B) TIMING OF REVIEW.—Within 14 days after any appeal is brought under paragraph (2), the Review Board shall decide whether to affirm or reverse the determination appealed.

SEC. 542. AUTHORITY TO PROVIDE LOANS AND GRANTS.

(a) IN GENERAL.—

(1) LOANS.—Except as otherwise provided in this section, the Committee shall annually, during the 3-year period beginning 30 days after the date the Committee or the Review Board approves a qualified debt restructuring agreement entered into by an eligible farm borrower, loan to the borrower the amount determined under section 541(e)(1) with respect to the borrower.

(2) GRANTS.—Within the 30-day period described in paragraph (1), the Committee shall, at the election of any eligible farm borrower who has entered into a qualified debt restructuring agreement which has been approved by the Committee, pay as a grant to the borrower, in lieu of all loans to which the borrower would otherwise have been entitled under this subtitle, the amount determined under section 541(e)(2) with respect to the borrower.

(b) USE OF AMOUNTS.—Any person who receives any amount under subsection (a) shall pay such amount to the person's farm creditors in accordance with the qualified debt restructuring agreement entered into by such persons.

(c) REDUCTION OF LOAN AMOUNTS IF WARRANTED.—The Committee shall periodically review the financial circumstances of each person to whom the Committee makes a loan under subsection (a)(1), and increase or decrease the amount to be loaned to the person to the extent that the Committee determines that such increase or decrease is required by deterioration or improvement of the person's financial circumstances.

(d) FINANCIAL DISCLOSURE BY LOAN RECIPIENTS.—Each person to whom the Committee makes a loan under subsection (a)(1) shall annually submit to the Committee an updated financial disclosure statement of the kind described in section 541(c).

(e) TERMINATION OF AID PROGRAM.—The Committee may not make any loan under subsection (a)(1), or pay any amount as a grant under subsection (a)(2) to any person whose application for aid is received after the close of the 2d fiscal year beginning after the date of the enactment of this subtitle.

SEC. 543. REPAYMENT OF LOANS.

(a) Full Repayment Required.—Each person to whom the Committee loans an amount under section 542(a)(1) shall repay such amount to the Committee during the period described in subsection (b).

(b) Repayment Period.—

(1) In general.—Except as provided in paragraph (2), the repayment period for any person shall be the 5-year period beginning 5 years after the first day an amount is loaned to the person under section 542(a)(1).

(2) 2-year postponement.—The Committee may postpone the beginning of any person's repayment period for at most 2 years if the Secretary has determined that such postponement will significantly increase the likelihood that the person will be able to make timely payments under the person's qualified debt restructuring agreement.

(c) No Interest Charged.—The Committee shall not charge interest on any loan made under section 542(a)(1).

CHAPTER 5—ADMINISTRATIVE PROVISIONS

SEC. 551. MATCHING GRANTS TO STATES TO OFFSET COST OF MEDIATION PROGRAM.

(a) Matching Grants.—Within 60 days after a qualifying State appropriates an amount for the operation or administration of the farm loan mediation program of the State, the Secretary shall provide financial assistance to the State, in accordance with subsection (b), for the operation and administration of the farm loan mediation program of the State.

(b) AMOUNT OF GRANT.—

(1) IN GENERAL.—Subject to paragraph (2), the Secretary shall pay to a State under subsection (a) not more than 50 percent of the cost of the operation and administration of the farm loan mediation program of the State.

(2) MAXIMUM AMOUNT.—The Secretary shall not pay more than $1,000,000 per year to a single State under subsection (a).

(c) USE OF GRANT.—Each State which receives any amount paid under subsection (a) shall use such amount for the operation and administration of the farm loan mediation program of the State.

(d) PENALTY.—Any State which does not comply with subsection (c) shall cease to be a qualifying State for purposes of this subtitle.

SEC. 552. PARTICIPATION OF AFFECTED FEDERAL AGENCIES.

(a) DUTIES OF THE SECRETARY OF AGRICULTURE.—

(1) GOOD FAITH COOPERATION.—The Secretary shall prescribe rules requiring each program under the jurisdiction of the Secretary that makes, guarantees, or insures farm loans to cooperate in good faith with re-

quests for information or analysis of information made, and to present and explore debt restructuring proposals advanced, in the course of mediation under any farm loan mediation program described in section 522.

(2) PARTICIPATION IN DEBT RESTRUCTURING NEGOTIATIONS.—Subtitle D of the Consolidated Farm and Rural Development Act (7 U.S.C. 1981 et seq.) is amended by adding at the end the following:

"SEC. 353. (a) If the Secretary is involved in negotiating a qualified debt restructuring agreement (within the meaning of chapter 3 of subtitle A of title V of the Family Farm Act) with a borrower, the Secretary shall offer to reduce the outstanding principal of, and the interest rate charged on, each farm loan (as defined in section 561(3) of such Act) made to the borrower to the extent that—

"(1) the loss which would be incurred by the Department of Agriculture (including interest, depreciation, and transaction costs) if the property securing such loan were immediately liquidated, exceeds

"(2) the loss which would be incurred by such Department if such reductions were granted.".

(b) DUTIES OF THE FARM CREDIT ADMINISTRATION.—

(1) GOOD FAITH COOPERATION.—The Farm Credit Administration shall prescribe rules requiring

the System institutions of the Farm Credit System to cooperate in good faith with requests for information or analysis of information made, and to present and explore debt restructuring proposals advanced, in the course of mediation under any farm loan mediation program described in section 522.

(2) PARTICIPATION OF SYSTEM INSTITUTIONS IN DEBT RESTRUCTURING NEGOTIATIONS.—Part C of title IV of the Farm Credit Act of 1971 (12 U.S.C. 2201 et seq.) is amended by adding at the end the following:

"SEC. 4.21. (a) Each System institution shall participate in any program of credit dispute resolution required under State law as a condition precedent to the initiation by a farm creditor (as defined in section 561(2) of the Family Farm Act) of collection activity against any person to whom the creditor has made any farm loan (as defined in section 561(3) of such Act).

"(b) Notwithstanding any other provision of this Act, if any System institution is involved in negotiating a qualified debt restructuring agreement (within the meaning of chapter 3 of subtitle A of title V of the Family Farm Act) with a borrower, the institution shall offer to reduce the outstanding principal of, and the interest rate charged on, each farm loan (as defined in section 561(3) of such Act) made to the borrower to the extent that—

"(1) the loss which would be incurred by the institution (including interest, depreciation, and transaction costs) if the property securing such loan were immediately liquidated, exceeds

"(2) the loss which would be incurred by the institution if such reductions were granted.".

(c) PARTICIPATION OF SMALL BUSINESS ADMINISTRATION IN DEBT RESTRUCTURING NEGOTIATIONS.—Section 5 of the Small Business Act (15 U.S.C. 634) is amended by adding at the end the following:

"(i) If the Administration is involved in negotiating a qualified debt restructuring agreement (within the meaning of chapter 3 of subtitle A of title V of the Family Farm Act) with a borrower, the Administration shall offer to reduce the outstanding principal of, and the interest rate charged on, each farm loan (as defined in section 561(3) of such Act) made to the borrower to the extent that—

"(1) the loss which would be incurred by the Administration (including interest, depreciation, and transaction costs) if the property securing such loan were immediately liquidated, exceeds

"(2) the loss which would be incurred by the Administration if such reductions were granted.".

(d) PARTICIPATION OF FEDERAL DEPOSIT INSURANCE CORPORATION IN DEBT RESTRUCTURING NEGOTIATIONS.—Section 11 of the Federal Deposit Insurance Act (12 U.S.C. 1822) is amended by adding at the end the following:

"(f) PARTICIPATION IN DEBT RESTRUCTURING NEGOTIATIONS.—If the Corporation is a participant in any attempt to negotiate a qualified debt restructuring agreement (within the meaning of chapter 3 of subtitle A of title V of the Family Farm Act) with respect to a borrower, the Corporation shall, notwithstanding any provision of State law, offer to reduce the outstanding principal of, and the interest rate charged on, each farm loan (as defined in section 561(3) of such Act) made to the borrower to the extent that—

"(1) the loss which would be incurred by the Corporation (including interest, depreciation, and transaction costs) if the property securing such loan were immediately liquidated, exceeds

"(2) the loss which would be incurred by the Corporation if such reductions were granted.".

SEC. 553. REGULATIONS.

Within 60 days after the date of enactment of this subtitle, the Secretary shall prescribe such regulations as may be necessary to carry out this subtitle.

SEC. 554. REPORT TO CONGRESS.

(a) IN GENERAL.—On or before January 15 of each fiscal year, the Secretary shall report to the Congress on the implementation during the preceding fiscal year of the aid program established by this subtitle and include in such reports the information described in subsection (b).

(b) CONTENTS OF REPORT.—The reports referred to in subsection (a) shall contain the following information with respect to each county in which the aid program is in operation during a fiscal year:

(1) The number of persons in the county who received aid under the program during the fiscal year.

(2) The number of socially disadvantaged individuals (as defined in section 8(a)(5) of the Small Business Act (15 U.S.C. 637(a)(5))) in the county who received aid under the program during the fiscal year.

CHAPTER 6—DEFINITIONS

SEC. 561. DEFINITIONS.

As used in this subtitle:

(1) ELIGIBLE FARM BORROWER.—The term "eligible farm borrower" means any person who meets each of the following requirements:

(A) CITIZEN OF THE UNITED STATES OR PERMANENT RESIDENT ALIEN.—The person (or, if the person is not an individual, each individual with a beneficial interest in the person) is a citizen of the United States or an alien lawfully admitted to the United States for permanent residence under the Immigration and Nationality Act (8 U.S.C. 1101 et seq.).

(B) OPERATOR OF FAMILY FARM.—The person's farm operations meet each of the following requirements:

(i) The person (or, if the person is a cooperative, corporation, partnership, or joint operation, the members, stockholders, partners, or joint operators, respectively) devotes a substantial amount of time daily to the management or operation of the farm.

(ii) A majority of the hours of labor required annually for the (farm and nonfarm) enterprise of the farm is provided by the person and the person's family (or, if the person is a cooperative, corporation, partnership, or joint operation, by the members, stockholders, partners, or joint operators, respectively, and the families of such individuals).

(iii) The value of the gross annual sales of agricultural commodities produced on the farm is at most $500,000.

(C) BORROWER OF FARM LOAN.—The person has obtained a farm loan and is the borrower with respect thereto.

(D) NONFARM RELATED INCOME TEST.—The annual average nonfarm related income of the person for the 4 calendar years preceding the calendar year in which this subtitle takes effect is at most $45,000.

(E) PROJECTED GROSS INCOME TEST.—The person's gross income for any of the person's 1st 3 fiscal years ending after the date of the enactment of this subtitle is likely to be less than the sum of—

(i) the farm operating expenses of the person for the fiscal year;

(ii) the reasonable living expenses of the person for the fiscal year; and

(iii) the principal and interest payments due from the person in the fiscal year to the person's farm creditors.

(2) FARM CREDITOR.—The term "farm creditor" means, with respect to a person, any other person (including any agency or instrumentality of the Federal Government or of any State government) who has made a farm loan to the person.

(3) FARM LOAN.—The term "farm loan" means any credit secured by a mortgage or lien on farm property which was extended before, and outstanding on, June 1, 1986.

(4) FARM PROPERTY.—The term "farm property" means—

(A) land that is in regular use for the production of crops, livestock, or fish under controlled conditions, for sale in sufficient quantities so that the property is generally recognized to be a farm rather than a rural residence;

(B) personal property used on such land in such production; and

(C) any residence located on such land that is the principal residence of the owner of such land.

(5) STATE.—The term "State" means the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, and American Samoa.

(6) COLLECTION ACTION.—The term "collection action" means, with respect to a loan made by a creditor, any action by the creditor to perfect liens, repossess property, use offsets, increase loan security, or collect any amount with respect to the loan.

Subtitle B—Grants To States To Assist Persons Leaving Farming

SEC. 571. ENTITLEMENT OF QUALIFIED FARMERS.

(a) In General.—Each qualified farmer who resides in a program State and applies to the Office of Emergency Aid for Persons Leaving Farming for emergency aid under this subtitle shall be entitled to receive such aid.

(b) Qualified Farmer Defined.—For purposes of this subtitle, the term "qualified farmer" means any individual who meets the following requirements:

(1) Eligible farm borrower.—The individual is, or has a beneficial interest in, an eligible farm borrower (as defined in section 561(1)).

(2) Liquidator of farm property.—The individual—

(A) is a debtor in a case under chapter 7 of title 11, United States Code; or

(B) has liquidated farm property (as defined in section 561(4)) after the date of the enactment of this subtitle due to foreclosure on a farm loan (as defined in section 561(3)) made to the individual or a person in which the individual has a beneficial interest.

(3) Asset test.—The aggregate value of the individual's assets does not exceed 200 percent of the

aggregate value of the property which the individual would be entitled to exempt from the individual's estate under paragraphs (1), (2), (3), (5), (6), and (9) of section 522(b) of title 11, United States Code, if the individual were a debtor in case under such title.

SEC. 572. OFFICE OF EMERGENCY AID FOR PERSONS LEAVING FARMING.

(a) ESTABLISHMENT.—There is established in the Department of Agriculture the Office of Emergency Aid for Persons Leaving Farming (hereinafter in this subtitle referred to as the "Office").

(b) DIRECTOR.—

(1) APPOINTMENT.—The Secretary shall appoint the head of the Office (hereinafter in this subtitle referred to as the "Director").

(2) COMPENSATION.—

(A) IN GENERAL.—The Director shall be paid at a rate not to exceed the rate of basic pay payable for level V of the Executive Schedule.

(B) CONFORMING AMENDMENT.—Section 5316 of title 5, United States Code, is amended by adding at the end the following new item:

"Director of the Office of Emergency Aid for Persons Leaving Farming, Department of Agriculture.".

(c) DUTIES.—The Director shall—

(1) annually evaluate, and approve or disapprove, State plans for the provision of emergency aid to qualified farmers under this subtitle;

(2) make payments to State agencies for the provision of emergency aid to qualified farmers in accordance with this subtitle;

(3) determine, as quickly as is practicable after receipt of any application for emergency aid under this subtitle, whether the applicant is a qualified farmer who resides in a program State;

(4) transmit to the State agency designated by any program State to administer the State plan described in section 575(b) a list of the qualified farmers of the State who have applied for emergency aid under this subtitle;

(5) coordinate emergency aid provided to qualified farmers under this subtitle with other assistance provided to such farmers to avoid duplication;

(6) maintain records, and report annually to the Congress, on the demand for emergency aid under, and the administration of, this subtitle; and

(7) perform such other functions as are necessary to carry out this subtitle.

SEC. 573. PAYMENTS TO PROGRAM STATES.

(a) IN GENERAL.—The Director shall pay during any fiscal year to the State agency designated by any program State to administer the State plan described in section 575(b) an aggregate of not more than the amount allocated to the State for the fiscal year under subsection (b) of this section.

(b) AMOUNT ALLOCATED TO PROGRAM STATE.—From the amounts appropriated to carry out this subtitle for any fiscal year, the Director shall allocate to each State that demonstrates to the Director a need for such allocation an amount that bears the same ratio to the total amount so appropriated for such fiscal year as the number of farms in the State (as measured by the last census of agriculture published by the Secretary of Commerce before such fiscal year) bears to the number of farms in all States that demonstrate to the Director a need for such allocation.

SEC. 574. AID TO QUALIFIED FARMERS.

(a) IN GENERAL.—Any State agency which receives a payment under section 573(a) shall use the payment as soon as is practicable to provide emergency aid, in accordance with this section, to the qualified farmers who reside in the State and appear on any list described in section 552(c)(4).

(b) AID PERIOD.—Subject to section 578, the State agency shall provide emergency aid under this subtitle to any qualified farmer described in subsection (a) during the 12-

month period beginning the date the farmer receives the first payment from the State under subsection (c).

(c) TYPES OF AID.—

(1) CASH ASSISTANCE.—The State agency shall pay to any qualified farmer described in subsection (a) who is not otherwise employed an amount equal to the amount by which—

(A) the official poverty line established by the Director of the Office of Management and Budget for the family unit of the farmer; exceeds

(B) the total annual cash receipts of the family unit of the farmer from all sources before taxes.

(2) HOME ENERGY ASSISTANCE.—The State agency shall treat each qualified farmer described in subsection (a) as an eligible household for the purposes of the Low-Income Home Energy Assistance Act of 1981 (42 U.S.C. 8621 et seq.).

(3) RELOCATION ASSISTANCE.—The State agency shall pay any qualified farmer described in subsection (a) who sells or liquidates the primary residence of the farmer an amount not to exceed $1,000 as reimbursement for any moving or relocation expenses incurred by the farmer.

(4) Family services.—The State agency may establish centers to provide to qualified farmers professional, self-help, or other forms of—

(A) stress management assistance;

(B) family financial planning assistance; and

(C) educational counseling.

(5) Employment assistance.—The State agency shall offer to any qualified farmer the following kinds of assistance:

(A) Employment counseling.

(B) Job search assistance.

(C) Day care for any child of the farmer who has not attained the age required by law for attendance at a public school.

(D) Before and after school care for any child of the farmer who has not attained the age of 13 years.

(6) Job skills training.—The State agency may establish a program to provide job skills training to qualified farmers.

(7) Nutrition assistance information.—The State agency may conduct outreach activities to inform qualified farmers of the availability of nutritional assistance under Federal, State, and local nutritional assistance programs.

SEC. 575. PROGRAM STATES.

(a) In General.—A State is a program State for a 12-month period if—

(1) the State submits to the Director a plan for the provision of emergency aid under this subtitle during the 12-month period; and

(2) the Director approves the plan.

(b) State Plan.—The Director shall approve any plan referred to in subsection (a) which—

(1) specifies the manner in which the emergency aid described in section 574(c) is to be provided in accordance with such section to the qualified farmers who reside in the State;

(2) establishes an outreach program for providing such aid to such qualified farmers;

(3) designates a State agency to administer the plan; and

(4) contains such other provisions as the Director determines are appropriate to carry out the aid program established under this subtitle.

SEC. 576. REGULATIONS.

The Secretary of Agriculture shall issue such regulations as may be necessary to carry out this subtitle.

SEC. 577. REPORT TO CONGRESS.

(a) In General.—On or before January 15 of each fiscal year, the Secretary shall report to the Congress on the implementation during the preceding fiscal year of the emergency aid program established by this subtitle and include in such reports the information described in subsection (b).

(b) CONTENTS OF REPORT.—The reports referred to in subsection (a) shall contain the following information with respect to each county in which the emergency aid program is in operation during a fiscal year:

(1) The number of persons in the county who received emergency aid under the program during the fiscal year.

(2) The number of socially disadvantaged individuals (as defined in section 8(a)(5) of the Small Business Act (15 U.S.C. 637(a)(5))) in the county who received emergency aid under the program during the fiscal year.

SEC. 578. TERMINATION.

The aid program established by this subtitle shall terminate 5 years after the date of the enactment of this subtitle.

Subtitle C—MISCELLANEOUS PROVISIONS

SEC. 581. PROHIBITION AGAINST DEBT RESTRUCTURING AID TO BORROWERS WHO PRODUCE COMMODITIES ON ERODIBLE LAND OR ON CONVERTED WETLANDS.

Sections 1211 and 1221 of the Food Security Act of 1985 (P.L. 99–198) are each amended—

(1) by striking "or" where it appears after the semicolon in paragraph (1)(E);

(2) by striking the period at the end of paragraph (2) and inserting "; or"; and

(3) by adding at the end the following new paragraph:

"(3) any loan under section 542(a)(1) of the Family Farm Act.".

SEC. 582. 10-YEAR AMORTIZATION OF PRINCIPAL LOSSES INCURRED IN CONNECTION WITH CERTAIN DEBT RESTRUCTURING AGREEMENTS.

Section 13 of the Federal Deposit Insurance Act (12 U.S.C. 1823) is amended by adding at the end the following:

"(j) 10-YEAR AMORTIZATION AND REAPPRAISAL OF CERTAIN LOSSES OF PRINCIPAL.—

"(1) The appropriate Federal banking agency shall permit any qualified bank to do any of the following acts with respect to a loss described in subparagraph (A) if the agency finds no evidence that fraud or criminal abuse by the bank led to the loss:

"(A) Any qualified bank may amortize any loss on any qualified loan that the bank would otherwise be required to show on its annual financial statement for any fiscal year beginning during the 10-year period beginning on the date of the enactment of the Family Farm Act, over a period of not more than 10 years, as specified in regulations issued by the appropriate Federal banking agency, if the loss is incurred as a result of a restructuring of obligations with respect to the loan under a qualified debt restructuring agreement described in chapter 3 of subtitle A of title V of such Act.

"(B) Any qualified bank may reappraise the value of any property owned by the bank on January 1, 1986, and acquired in connection with the making of a qualified loan, if the reappraisal is made as a result of a restructuring of obligations with respect to the loan under a qualified debt restructuring agreement described in chapter 3 of subtitle A of title V of the Family Farm Act.

"(3) The appropriate Federal banking agency may issue regulations implementing this subsection with respect to banks that it supervises.

"(4) As used in this subsection:

"(A) The term 'qualified bank' means any farm creditor (as defined in section 561(2) of the Family Farm Act) the deposits of which are insured by the Corporation.

"(B) The term 'qualified loan' means any farm loan (as defined in section 561(3) of the Family Farm Act).".

SEC. 583. REVISED ELIGIBILITY FOR FORECLOSURE PROTECTION.

Section 352(c)(3) of the Consolidated Farm and Rural Development Act (7 U.S.C. 2000(c)(3)) is amended by striking "$40,000" and inserting "$10,000".

SEC. 584. TARGETING OF LIMITED RESOURCE LOANS.

Section 313 of the Consolidated Farm and Rural Development Act (7 U.S.C. 1943) is amended—

(1) by inserting "(a)" before "The Secretary shall"; and

(2) by adding at and below the end the following:

"(b)(1) The Secretary shall ensure that, in any county in which limited resource borrowers receive loans under section 311 and in which at least 5 percent of the population are members of any group referred to in section 8(a)(5) of the Small Business Act (15 U.S.C 637(a)(5)), the percentage of amounts loaned to persons who are members of such group equals or exceeds the percentage of the population who are members of such group.

"(2) For making loans to limited resource borrowers under section 311, there are authorized to be appropriated to the Secretary for any fiscal year such sums as are necessary to enable the Secretary—

"(A) to carry out paragraph (1); and

"(B) to loan at least as much to limited resource borrowers who are not members of any group referred to in section 8(a)(5) of the Small Business Act as was loaned to such persons under section 331 from amounts appropriated for the preceding fiscal year.

"(3) On or before January 15 of each fiscal year, the Secretary shall report to the Congress on the implementation during the preceding fiscal year of this subsection and include in such reports the following information with respect to each county in which limited resource borrowers received loans under section 311 during such preceding fiscal year:

"(A) The number of persons in the county who received such loans.

"(B) The number of socially disadvantaged individuals (as defined in section 8(a)(5) of the Small Business Act (15 U.S.C. 637(a)(5))) in the county who received such loans.".

THE CURRENT STATUS OF FARM PROGRAMS

Testimony From Farm Organizations

TUESDAY, JUNE 23, 1987

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room SR-332, Russell Senate Office Building, Hon. John Melcher (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Melcher and Heflin.

Also present: Senator Leahy, chairman of the Committee on Agriculture, Nutrition, and Forestry.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. The subcommittee will come to order.

This morning, we are going to have our second day of hearings on the proposals and suggestions for modifying the 1985 farm bill and our witness list today is composed of representatives of agricultural organizations throughout the country.

We will make Senator Heflin's opening statement for this morning's hearing a part of the record at this point.

[The prepared statement of Senator Heflin follows:]

PREPARED STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Mr. Chairman, I would like to commend you on the timely scheduling of this hearing on the Status of Farm Programs. I welcome our panelists to the subcommittee and look forward to their testimony.

Mr. Chairman, while I am not completely satisfied with the 1985 Farm Bill, I do feel that certain provisions of the bill are working. The cotton program has been successful in providing higher market prices for producers and exports have increased. The peanut program continues to work with little cost to the government. I believe no changes are necessary in either of these commodity programs.

However, I do see a need to review the current programs for feed grains and soybeans for possible program changes. I believe that the marketing loan program would be successful in the soybean program if administered properly. In the feed grain programs, I am open to all possible alternatives for reaching a feasible and productive solution.

Let us not lose sight of our ultimate goal, and that is to stabilize and strengthen our family farm system of agriculture.

Thank you, Mr. Chairman.

Senator MELCHER. Please proceed.

STATEMENT OF CORKY JONES, NATIONAL PRESIDENT, AMERICAN AGRICULTURE MOVEMENT, INC., BROWNVILLE, NE

Mr. Jones. Mr. Chairman, I want to thank you for holding these hearings. I think it is crucial for the solvency of this Nation and definitely for the future of agriculture and the family farm service with which we have had problems with.

I want to also state that the American Agriculture Movement has been anxious to appear before you today in support of the Harkin-Gephardt supply management farm legislation.

The opposition to higher farm prices is a well-orchestrated and a well-financed operation. It is not to our liking and it is going to be a big battle to do anything against the money and the financing behind it. We have seldom witnessed such misinformation and distortion of the truth as that being distributed by the USDA and the grain trade.

I am not much for reading prepared testimony, Mr. Chairman. I kind of speak from the heart and I tell you, as I stepped off the tractor in our farming operation with my three sons yesterday, there is—the farm boy is still in me and I think that this should be an important direction for us to go.

I am not saying that the 1985 farm bill is a complete failure; it is not. I want to thank you for preserving the target freeze for the 2 years. Senator Melcher and my past Senator, Ed Zorinsky, and present Senator, Mr. Exon, did this and it literally took and put millions of dollars into the farmers pockets over the past 2 years that would not have been there if it had not been for your efforts and concern about the producer of food and fiber. So, I thank you for that.

The provisions of the farm bill that are working and those same provisions that are working for the tobacco, peanut, sugar industry, where they have got a strict mandatory supply management and loans that cover the cost of production.

All that we in the American Agriculture Movement and the farmers across the Nation are asking for is equality for all commodities.

I have traveled this country as a farmer and the national president of the American Agriculture Movement. I have traveled this Nation, State after State, including the State of Montana. I know the crisis that the cattlemen are having there. We have also got cattle in our farming operation. The cattlemen are having a problem getting a price for their feeders the same as we are having a problem getting a price for what we produce.

But I have noticed one thing as I have traveled through the State of Montana and the cattle country of Nebraska and Colorado, that the buyers, the buyers for the feeders are no longer the farmers from the Midwest to get those 50 head, 100 head, 300 head to take back to their feed lots. Because there is no profit in the grain man's portion of production.

The only bidders that are bidding on those cattle are the huge corporate bidders once again, which they can sit and confide in each other how high we are going to go today or whether possibly how low are we going to bid today.

We see the destruction of the solvency of this country due to the failing 1985 farm legislation in most parts. In my part of the country, land values in the State of Nebraska have dropped 60 percent since 1983.

This is due to the fact of one thing and one thing only, the commodity prices are below the cost of production.

I would be the first to go along with some of the other people that are saying, "Well, it is a sign of the times that the farming and production of food and fiber has got to change. This is the eighties, everything has got to change."

If, in fact, there would be another entity to produce food and fiber for this country that was more efficient and could do it cheaper and better than the family farm system that we are producing under today—but, Mr. Chairman, there is not.

There is not any type of food and fiber production system anywhere in the world that is any way near as efficient and productive and cares about the soil and the conservation and the future of this soil and water as a system than the family farm system that we are living under today.

When we look at what we would like to go to by some of the big people and shift out into something else, the only way that they can go ahead and operate is to have the tax breaks, the corporation tax breaks.

If the only source of income is from the land, there is not a farmer out there that is going to stay solvent today.

Those prices are below the cost of production.

Once again I will exclude the peanut, tobacco and some of the provisions in the marketing loan will work, but we are opposed to marketing loan, as far as the American Agriculture Movement, because it is budget exposure.

Budget exposure may not be so great in some of the provisions such as cotton and rice, but if you start taking the budget exposure it would be placed on the feed grains and wheat and soybeans.

Budget exposure would shoot us right in the foot. There would be no way.

We feel that the purchaser of all commodities should pay the price, not the taxpayers. Mandatory supply management, such as the Harkin-Gephardt bill is the ideal way.

We look at what has been drafted and formulated and put down at the demise of the masses—and who devised these—they had input from the huge grain trades, the same grain trades that in my State are saying that there is no profit and threatening to move out of the State.

And, yet, a $1,000 investment just a few years ago into ConAgra, one of the big corporations in the State, would be worth $82,000 today. This is the kind of structure that we see.

Cargill, profits up 66 percent, while the producers of the food and fiber—the real wealth it should be generating is at a deficit.

We do not want a handout. We want just legislation giving us the capability to go ahead and with good luck and good soil management and good producing techniques—have the capability of at least covering the cost of production. The Harkin-Gephardt bill spells that out.

The drafting of the farm bills that we are living under today undoubtedly have been drafted by people that would be looking for torture chambers—to what they are doing to people across this Nation.

In my State, we have seen suicides. We have seen murders. We have seen heavy child abuse and abandonment of families.

My neighbor, just right across the road, 2 years ago—their daughter—the family that she was married to—had two children. The only thing that this boy wanted to do, just like a lot of the youth that was reared on the farm—he wanted to farm. Wanted to go ahead and be a producer.

He was farming with his dad and, yet, times got so bad and the prices due to failing legislation, setting the prices below the cost of production, that they had a discussion, said, "We can no longer continue our family operation. There is not enough here to keep solvent, not even enough to hang on. Son, you are going to have to do something else."

An argument pursued and the frame of mind, Senator, is what I am trying to get, the frame of mind that is going across this Nation with the subhuman treatment and the absolute demolishing of a way of life took over.

The boy stabbed his dad to death—my neighbor. The neighbor girl now is trying to rear two children on her own. Her husband was sent away to the penitentiary. It was a criminal offense.

This is what is going on in rural America. The repossession of land and equipment. Last week I was in here and watched as others testified including Willie Nelson, John Cougar Mellencamp from the entertainment field—once again to clear the record, they were not trying to say they knew all about farming, but they have traveled the same as I have traveled—and many of us across this Nation—there is something wrong. It needs to be fixed.

This is what we need to address today. It is not anything to be shameful of, to do something wrong, or pass a failing piece of legislation or plant a failing type of crop or whatever we are in in our lifestyle.

But to continue to be wrong. To continue not to correct the wrongs is unforgivable. When we are talking about the human sacrifices going on across the Nation today, it is unforgivable for we, as citizens, to allow our leadership not to take an active role and change those failing policies that are destroying the entire solvency of this Nation.

I was in the Navy several years ago during the Korean conflict and there is one thing they taught us. The first thing they ever did—to salvage a ship—is they instilled damage control and the capabilities to control this damage if you took it—or torpedo midship.

Senator, I can tell you that this Nation has been torpedoed amid ships and it is going to sink if our damage control—the Senators and the congressional bodies—do not do something to change it.

The entire economy, not just that of us in the actual industry of placing food in the peoples' mouths, but all of the activity and the jobs that go along with this are at stake.

After listening to the testimony and listening to some of the panel last week, I heard one of the members of the panel state that we could not put a price—a price that would cover the cost reduction—we could not increase price to commodities. If we would, this would destroy rural America.

I was in that Senator's State and spoke last Friday and Saturday. In the State of Missouri—there is probably very few States that would exceed the heartbreak, the disillusionment, the foreclosures and the closings of banks—in fact there was another bank closed in the State of Missouri last week.

The State that this Senator said would be absolutely destroyed, "rural America would be destroyed," was his quote if we put higher prices.

In the name of God how can we have a statement like that come from a leader, one out of the only 100 leaders that we have got in this Nation—and it would absolutely destroy the future and solvency of this country.

While speaking in the State of Missouri, I had a friend that was there, and walked up, and asked me if—he remembered here a couple years ago we had a farmers march, a parity march. And we in the American Agriculture Movement extended a welcome and invitations for people and farmers and ranchers across this Nation to come to Washington, DC to share in this protest.

There were several bus loads that came out of the State of Missouri. This one young man walked up and wanted to know if I remember speaking to this bus load and thanking them for coming as they got ready to depart.

I said, "Yes, I did." He says, "You know, there was 44 people on that bus." He says, "Do you know how many are farming yet today?" And I said, "Well, I am sure it would be quite a few less than the 44." "Three."

Three producers, three farmers, Senator, out of a bus load is what is left. And this was just 2 years ago.

This is the deterioration and the heartbreak that is going on across the Nation. Once again, if it was another lifestyle, another entity that could produce better, cheaper, treat the land with the same respect that we are, and the husbandry of the land, preservation, I would say, yes, the time has come.

But it has not. We are bringing just absolute disillusionment and heartbreak into this country. I fail to see how the 51 percent that continues to vote for passage of failing legislation can continue to say they are representing the solvency and the future of the United States of America.

I thank you for this opportunity. I have got a lot of respect for you, Senator Melcher. And I have worked with you before and had a lot of respect passed on by the late Senator Ed Zorinsky for your feelings and for your dedicated actions for the future of this country.

I would be happy to try to answer any questions you might have.

[The prepared statement of Mr. Jones follows:]

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TESTIMONY FOR
CORKY JONES, NATIONAL PRESIDENT
AMERICAN AGRICULTURE MOVEMENT, INC.
ON
FARM POLICY

TUESDAY, JUNE 23, 1987

BEFORE THE
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND
STABILIZATION OF PRICES
CHAIRMAN JOHN MELCHER

Mr. Chairman and members of the Committee, the American Agriculture Movement, Inc. has been anxious to appear before you today in support of the Harkin/Gephardt supply management legislation.

It would be pointless to begin today explaining in detail the crisis existing in rural America. We all know that the crisis is there; that much of rural America stands on the brink of collapse. The only real question is what kind of legislation is needed to correct this rural depression that threatens the economic fabric of our entire economy. Do we need to "stay the course" and watch literally hundreds of thousands more American farmers be driven from the land? Or can we agree that the best way to stabilize and perpetuate our agriculture industry is by providing our producers with higher farm prices?

The opposition to higher farm prices is a well-orchestrated and a well-financed operation. We have seldom witnessed such misinformation and distortion of the truth as that being distributed by the USDA and grain trade.

Rather than condemn governmental intervention in agriculture as the free traders do, we know there is a basic need for government involvement in agriculture. Farmers have never been able adjust to changing market conditions as readily as manufacturers. When demand increases, as it did in the World War era, farmers expanded production rapidly, but they could not as easily cut production when demand slackened during the postwar years.

Before farmers could undertake adequate production adjustments, supply usually surpassed demand and caused prices to plummet, resulting in economic distress which eventually spread to other sectors of the economy. Governmental intervention to help stabilize the prices and supplies of agricultural commodities became a necessity.

Today we find ourselves in very similar circumstances. The U.S. has been encouraging higher levels of production thoughout the late 70's. The inevitable surplus situation is complicated further by an Administration engaged in an international trade war for export markets. This cut-throat price competition has resulted in disastrously low prices not only for U.S. producers but for all exporting countries.

Everyone was told during the debate over the 1985 Farm Bill that all we'd have to do is lower the U.S. loan rates and exports would boom. Congress listened and reduced the U.S. price. As we predicted, our competitors responded with price cuts of their own. Now, we're struggling with exports valued at below the U.S. cost of production and record budget outlays. The result? A farm program which has yet to increase export volume significantly but most certainly has decreased export value. Farmers are also being forced by lower prices to increase unit production to maintain cashflows.

In today's budget crunch, one thing should be clear: We cannot continue to lower the price of our commodities and make up the difference with government welfare checks. Legislative change is needed and it's needed today.

AAM is not advocating dismantling the 1985 Farm Bill. Certainly parts of the 85 Farm Bill are working-- for instance the Peanut, Tobacco and Sugar programs. The Harkin/Gephardt bill will merely add another option to the farm bill for producers. If the majority of producers are happy with the current program, the referendum will fail and the 1985 Farm Bill will remain intact. If, on the other hand, the majority do not support the current bill, the vote would enact the mandatory program.

Along with AAM meetings in 13 major states, we have record of 456 non-AAM meetings in which over 20,000 individual farmers and ranchers from 45 states participated. These meetings indicate overwhelmingly that American producers favor a mandatory supply management program with higher loan rates. In the national wheat poll in 1986, 237,000 farmers polled in wheat, feedgrains and soybean categories voted 58% "yes" for higher loan rates and mandatory controls.

Farmers are ready to accept strict supply management programs. The wheat poll shows a clear majority supports mandatory programs. If farmers had the right to vote, we're confident the referendum would pass and it would be clear to everyone that producers favor higher prices with production controls. This is a major reason that some commodity groups and farm organizations are trying to defeat the program in Congress.

Everyone should be aware that right now the 1985 Farm Bill is the best it will ever be. Target prices are scheduled to ratchet down 10% between now and 1990. The loan rates will also continue to fall. What will be the result of a 10% cut in target prices? You know as well as I do, that it will be devastating to producers. A vote against the Harkin/Gephardt bill is a vote in favor of a 10% cut in target prices. And to do nothing is to sign the death warrant for thousands of additional family farms. Our opposition has power, money and political clout, while producers generate the jobs and economic base for the nation. I ask you, which is more important?

What we're up against is the Reagan administration, agri-businesses and the grain trade-- all three employing the same free-trade rhetoric to oppose a bill that would establish higher floor prices and a mandatory supply management program, as well as provide for the negotiation of international commodity agreements. This free-trade argument is obviously self-serving for corporate interests, like the grain trade, which stand to profit from market instability and cheap commodities.

Lastly, AAM wishes to make the case that price supports are necessary to protect against wide swings in commodity price levels, and with the coordination of domestic farm programs through international commodity agreements, the Family Farm Act would result in a balanced expansion of trade at fair price levels for producers and consumers.

The American Agriculture Movement looks forward to working with you on upcoming legislation to solve the problems in rural America.

Senator **Melcher**. Corky, we have gotten a lot of corn and wheat in storage, some of it owned by the CCC and some of it farmer owned. What would you recommend that we do to dispose of it?

Mr. **Jones**. I think one of the best things that I have heard of is that ethanol plants come up for alternate energy. I have got 1.2 million bushel just 3 miles—I personally do not have. I am saying in my area, there is 1.2 million bushels of corn stored in temporary storage and it is out of condition and they are trying to move it now.

This is going to be the results of a lot of this temporary storage of corn and it is all due to one thing, Senator, we have not had a supply management program in the past.

It should do one thing and prove that we must have a supply management and we produce for the needs and for necessary reserve.

But I think the ethanol programs across this Nation need to take—into effect—and they need to be inspired and put in place immediately.

Grain like this would make good alcohol. Grain like this is not fit for human consumption and it would deteriorate to where it would not even be decent cattle feed.

Senator **Melcher**. Is this CCC corn?

Mr. **Jones**. That is correct. Yes, sir.

Senator **Melcher**. Has it been stored on the ground, on the street corners and parking lots——

Mr. **Jones**. Well, they raised—basically that is what it is with the huge vinyl tarp over the top of it.

Senator **Melcher**. Wood up about this high? [Indicating.]

Mr. **Jones**. That is right. That is correct. You see them springing up all across——

Senator **Melcher**. Is it still there?

Mr. **Jones**. A portion of it is and I think we will be bottling more of it later in the month if it continues to get hot, because it is fast going out of condition.

Senator **Melcher**. I recently asked the Department whether corn was still stored on street corners and parking lots in communities across the Corn Belt and they thought it all had been moved, but some of it is still there?

Mr. **Jones**. No, temporary storage in Nebraska, Iowa, Missouri, there is millions and millions of bushels—and I say temporary storage—it is a type of structure that you just mentioned.

It is outside with the tarps over it and a little—maybe raised with the wood foundation coming up 3 or 4 feet.

Senator **Melcher**. Wood up about this high. [Indicating.]

Mr. **Jones**. Right.

Senator **Melcher**. And rats chewing through it?

Mr. **Jones**. We have enough problems in our area keeping it in metal bins where variation—and the floors of—everything under it and I see nothing but damaged grain coming out of this.

Senator **Melcher**. I am glad you mentioned ethanol, because I believe it is very important that we maintain in operation ethanol plants that we have in this country.

It is a significant step toward an opening to get the technology to make ethanol cost competitive. I know it is not cost competitive now. We do not expect it to be.

But perhaps with some fuel in corn that is priced low enough to make ethanol make sense, perhaps we could keep these plants going during this time.

We do not know what the future holds for us in energy supplies and if oil could conceivably have another sharp climb in price—I realize it is about $20 now per barrel and certainly supplies have to remind us that we better be prudent on what we are doing with ethanol plants. I do not want to see them disappear. I want to see them kept.

Mr. JONES. I think in—a military advantage and defense advantage would definitely be advantageous to this Nation and it is something that we have got an abundance of and it would be one way.

I think it would make a lot more sense doing this than exporting way below the cost of production to where our exporting recipients, Russian, or whoever it may be, are getting the benefits out of—well, way below the cost of production.

Our 1985 farm bill, when it comes to looking at feed grains and wheat and soybeans, it is the best type of legislation that you could ever possibly devise for Russia and China or whoever we are exporting to.

I think it would make a lot more sense to go ahead and—no matter what the expense—gas in my area is approaching $1 a gallon again.

So, you would be approaching a status right now where it would be very advantageous to take the stored grain that we have got and place it into alcohol for defense systems if nothing else.

Senator MELCHER. The corn, if it is still in that type of storage, is deteriorating, is it not?

Mr. JONES. That is correct. Yes, sir.

Senator MELCHER. Thank you very much, Corky.

The next witness is Dean Kleckner, president of the American Farm Bureau Federation.

STATEMENT OF DEAN KLECKNER, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. KLECKNER. Thank you, Mr. Chairman. You have my prepared statement and I am going to highlight some of the provisions of that.

I do thank you for the opportunity of presenting these views of the American Farm Bureau Federation. I am Dean Kleckner, president of the American Farm Bureau Federation, and I farm in the little town of Rudd, in north central Iowa. Not a large farmer and I raise corn, soybeans, and hogs. I feed most of the corn to hogs.

We did support the 1985 farm bill for three reasons: To provide protection to producers; to provide for export market competitiveness; and, the voluntary stocks reduction programs.

These are three major objectives that we think are the goals necessary to focus on the problems that do face farmers today.

For the most part, we think the 1985 farm bill is working and should be allowed to function as designed rather than proposing drastic changes during the first marketing year in which it is in effect.

It is important to note that the 1985 farm bill did not create the problems facing many farmers today. Given time, we believe it will work.

The cumulative effect of past farm policy cannot be reversed immediately. Problems do continue for many farmers, but the answer to those problems is not a revamping of the farm bill and adding more Government policy uncertainty to farmer decisionmaking.

There is enough for us out there right now with the weather and all the other factors without Government uncertainty.

The American Farm Bureau Federation does stand ready to work with the 100th Congress on a bipartisan basis to improve conditions of income for farmers by dealing with farm program policy, agricultural credit, and the international trade issues. We must keep the financial problems of many farmers separate from farm policy. We urge Congress not to be tempted by the simplistic solution proposed by proponents of mandatory production controls which do not address the complexity of financial problems facing many farmers today.

For the purposes of this hearing, I would like to offer comments regarding three basic conceptual alternatives to the provisions of the 1985 farm bill. These are: mandatory production controls as proposed by Senator Harkin in the Harkin-Gephardt bill; decoupling; and, expansion of the marketing loan for wheat, feed grains, and soybeans.

Concerning mandatory production controls, the Farm Bureau's opposition to those controls is rooted in our belief that Government is unable to dictate the optimum allocation of resources and productivity for American agriculture. As farm producers, we resent the implication inherent in mandatory control programs that government is better able to respond to market conditions than individuals who produce for that market. We believe that farmers should retain their ability to respond to market signals and their freedom to determine the best strategy for production, marketing, and use of their capital, labor, and property.

Several recent studies clearly indicate that the mandatory production control approach simply will not work. Such a proposal is doomed to fail. It would cripple the American farming system as we know it due to the negative impact on livestock producers and the serious restriction of U.S. agriculture's ability to compete in world markets. I would like to elaborate our opposition to the specific issues involved in mandatory control programs on a point-by-point basis.

One, the issue of income for program crop producers. Mandatory control programs are predicated on the idea that farm income will be increased through parity based prices higher than current market prices. In order to sustain increased net farm income under such a proposal, one must assume that commodity users will continue to purchase our production at higher prices. This is an inaccurate assumption. This ignores the fact that domestic and foreign users will find substitute products and circumvent the import restrictions and marketing limitations.

Two, the livestock producer impact that I mentioned a little earlier. All the analysis that we have seen showed the livestock segment of the farm economy suffering severe reductions as a result of the mandatory control proposals with disruption of the present relationship of consumer demand of red meats, poultry, and fish. This is even more important than the shortrun effects on livestock producers income.

Three, the referendum issue. Proponents of mandatory controls have promoted the idea that such proposals would not take effect unless approved by producers in a referendum process. We see three serious problems existing with the referendum concept.

First, it does not allow all producers or individuals who are impacted by mandatory controls an opportunity to vote. Producers of livestock and the nonprogram crops—and there is a lot of those out there, in fact, they are probably the majority—they would be severely affected by the adoption of mandatory controls, but they would be denied a vote in the referendum.

The second problem we see with the referendum is that chaos would result if producers of one commodity voted to impose mandatory production controls while related industries rejected them. I think they would—additional ones would be falling. Then, like tenpins, adopting it as they would be forced into it.

Third, our representative form of government does not provide individuals the right to determine the level of direct government support through the referendum process.

Four, resuming the issues of the overall mandatory program, there are the trade implications. Mandatory production control proposals rely on extremely costly export subsidies or export cartel arrangements, one or the other. Both of these ideas would prove disastrous for American agriculture and world trade.

Export subsidies would not only cost $9 to $10 billion annually and, thus, make controls as costly as the current program, but would create a contraction of world trade and would elicit protectionist responses as well as increased use of export subsidies by other nations. They simply would respond to what we would be doing.

As an alternative to export subsidies and import barriers, proponents of mandatory controls have proposed the use of commodity cartel agreements. Such cartels have never been successful in the past. While attempting to make cartels work, the largest producer in a cartel must curtail output in order to entice smaller producers to remain active participants in the cartel. The United States, as the major supplier of agricultural exports, would have to drop its market shares to very low levels. Farmers would find themselves in the position of Saudi Arabia, that has cut its oil output from over 10 million barrels a day to just over 2 million barrels a day trying to prop up world oil prices. We would, in effect, be the Saudi Arabia of the food world.

Five, concerning the issue of carryover supplies. A recent analyses of mandatory control proposals—before Congress—have projected that they would achieve no reduction in our current burdensome carryover stock levels. Agricultural prices, under market conditions, simply cannot respond in a positive fashion unless carryover stocks are reduced.

Six, maximum acreage reduction requirements. We are concerned also about the mandatory control program, that it could never be effective at the maximum acreage level that has been suggested at 35 percent, that the budget impact would be greater than the current program. Young farmers would be precluded from entering into farming.

Furthermore, history has shown that U.S. attempts with similar programs in the past have never been successful.

The American Farm Bureau Federation views the adoption of mandatory controls as a disastrous policy for program crop producers, livestock producers, the nonprogram crop producers, young farmers and ranchers, agricultural exports and the economy as a whole.

This kind of program will never be successful. It just violates too many basic economic principles.

Proponents of mandatory production controls offer the enticing lure of higher prices with the assumption that greater farm income will be achieved.

The American Farm Bureau Federation believes that the benefits of this program are an illusion. The reality is that American agriculture would suffer irreparably from the adoption of mandatory production controls.

We do not succumb to the simplistic allure of the promise of higher prices and mandatory production controls as a solution to problems facing many farmers.

For the benefit of time, I will just briefly say on decoupling——

Senator MELCHER. Can you suspend right there. I must make a phone call and I will be right back.

[A brief recess was taken.]

Senator MELCHER. Please proceed, Dean.

Mr. KLECKNER. Thank you, Mr. Chairman. On decoupling, in addition to our basic opposition to changes in the 1985 farm bill, we have some secondary concerns about both the zero planting option and the broad based decoupling concept. If a zero planting option is provided to farmers, we are concerned about the impact that such a program might have on landlord-tenant relationships.

The competition that that would exert on the goal of a 45 million acre conservation reserve program—we are concerned about the possibility that if price increases occur under the 0/92, producers would receive reduced income support at the same time, then have no production to sell in the market.

And we are also concerned that the expected response from competing exporters would be—which would be expanded foreign production and competition. They would just do that if we moved toward the 0/92.

The concept of true decoupling as proposed by Senators Boschwitz and Boren may or may not be a viable option to be considered in future farm bills.

We think there needs to be some careful analysis of several points of that and the following areas—we think true decoupling renders the income payment—a true entitlement program based solely on program production history.

Producers will be denied benefits under such a program for no reason other than they have never participated or they have not produced a program crop. And there are a substantial number of farmers that are out there like that.

Nonprogram crops could also be impacted under a decoupling program. However, we think this concept needs thorough discussion as we move toward the next farm bill.

Compulsory use of marketing loans for wheat, feed grains, and soybeans, we have been supporting the use of the marketing loan in the cotton and rice programs. We do not believe, however, that the success in those programs necessarily means that the identical policy instrument would be effective and cost efficient if applied to wheat, feed grains and soybeans. Our farm bureau policy does not support the use of the marketing loan for these commodities because our members are not convinced that the use of the marketing loan would produce sufficient response in the world market to merit the additional cost associated with using this tool. Furthermore, our voting delegates in the American Farm Bureau Federation expressed concern at the last meeting that the additional cost would need to be offset by other agricultural function savings that could not be effected without making major adjustments to the fundamental policy provisions of the 1985 farm bill.

Lastly, before I close, I have some remarks about soybeans. Producers of soybeans have faced the same economic difficulties which have confronted producers of the program crops.

We have struggled in the American Farm Bureau Federation with devising an appropriate response to this problem. Our board of directors, at a recent meeting, has approved action that we think would bring about greater price competitiveness in soybeans while adequately protecting producers' income.

Our proposal calls for sufficient adjustment in the effective price support level for soybeans to provide effective market competitiveness with producers eligible for an income supplement payment made in soybean specific or generic certificates. This position has been communicated to Secretary Lyng in correspondence and in personal meetings. We believe that such a program could be put in place without a legislative amendment to the Food Security Act of 1985.

Only through carefully constructed programs which allow market forces to send signals to producers, to make production and resource adjustments and reduce the burdensome level of carryovers stocks will American agriculture prosper. We believe that the current farm bill provides the right general direction and should be maintained as a direction of agriculture policy for the remainder of the 1980's.

I thank you, sir, for the opportunity to testify today. I would be glad to respond to any questions.

[The prepared statement of Mr. Kleckner follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION BEFORE THE SENATE COMMITTEE ON AGRICULTURE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES REGARDING THE STATE OF AMERICAN AGRICULTURE IN LIGHT OF THE FOOD SECURITY ACT OF 1985

Presented by Dean Kleckner, President
American Farm Bureau Federation

June 23, 1987

Mr. Chairman, thank you for the opportunity to present the views of the American Farm Bureau Federation regarding agriculture under the Food Security Act of 1985. I am Dean Kleckner, President of the American Farm Bureau Federation and a farmer from Rudd, Iowa, where I raise corn, soybeans and hogs.

Farm Bureau is the nation's largest general farm organization, representing four out of every five farmers that belong to any farm organization. Our purpose is to unite farm and ranch families in order to analyze their problems and formulate action to achieve educational improvement, economic opportunity and social advancement.

Farm Bureau beliefs are founded on a commitment to freedom and opportunity for individuals. Farm Bureau policy, developed by members at the county, state and national levels, expresses this fundamental belief in policy which states:

> "America's unparalleled progress is based on freedom and dignity of the individual sustained by basic moral and religious concepts.
>
> "Economic process, cultural advancement, ethical and religious principles flourish best where people are free, responsible individuals.
>
> "Individual freedom and opportunity must not be sacrificed in a quest for guaranteed 'security'."

Farm Bureau supported the 1985 farm bill to provide protection of producer income, export market competitiveness, and voluntary stocks reduction programs. These three major objectives of domestic agricultural policy are the goals necessary to focus on the problems that face farmers.

For the most part, we believe the Food Security Act of 1985 is working and should be allowed to function as designed rather than proposing drastic changes during the first marketing year in which it is in effect. It is important to note that the 1985 farm bill did not create the problems facing many farmers today. Given the time we believe it will work. The cumulative effect of past farm policy cannot be reversed immediately.

Problems continue for many farmers, but the answer to those problems is not a revamping of the farm bill and adding more government policy uncertainty to farmer decision making here at planting time.

Farm Bureau stands ready to work with the 100th Congress on a bipartisan basis to improve conditions and income for farmers by dealing with farm policy, agricultural credit and international trade issues. We must keep the financial problems of many farmers separate from farm policy. We urge Congress not to be tempted by the simplistic solution proposed by proponents of mandatory production controls which do not address the complexity of financial problems facing many farmers today.

For the purposes of this hearing I would like to offer comments regarding three basic conceptual alternatives to the provisions of the 1985 farm bill. These are: mandatory production controls as proposed in the Harkin/Gephardt bill; "decoupling"; and expansion of the marketing loan for wheat, feed grains and soybeans.

MANDATORY PRODUCTION CONTROLS

Farm Bureau strongly opposes the adoption of mandatory production controls for major agricultural commodities because such a program is in conflict with this most basic expression of our beliefs regarding economic progress. Our policy specifically states: "We are strongly opposed to any type of mandatory production, acreage control or marketing quotas. Programs that require mandatory production or marketing controls will destroy farm exports."

Our opposition to mandatory production controls is rooted in our belief that government is unable to dictate the optimum allocation of resources and productivity for American agriculture. As farm producers, we resent the implication inherent to mandatory control programs that government is better able to respond to market conditions than individuals who produce for that market. We believe that farmers should retain their ability to respond to market signals and their freedom to determine the best strategy for production, marketing and use of their capital, labor and property.

Several recent studies clearly indicate that the mandatory production control approach simply will not work. Such a proposal is doomed to fail. It would cripple the American farming system as we know it due to the negative impact on livestock producers and the serious restriction of U.S. agriculture's ability to compete in world markets. Please allow me to elaborate our opposition to the specific issues involved in mandatory control programs on a point-by-point basis.

1) Income of Program Crop Producers. Mandatory control programs are predicated on the idea that farm income will be increased through parity based prices higher than current market prices. In order to sustain increased net farm income under such a proposal, one must assume that commodity users will continue to purchase our production at higher prices. This ignores the ability of livestock producers and export markets to substitute other products for traditional feed stocks and food commodities. In addition to substitute products, other suppliers will be sought regardless of import restrictions and marketing limitations. The economic incentive to circumvent the program is large enough that suppliers and consumers would be forced to seek alternatives.

2) Livestock Producer Impact. All analyses show the livestock segment of the farm economy suffering severe reductions as a result of the mandatory control proposals. Livestock and poultry producers will face higher feed costs and increased competition as grain producers expand livestock feeding to utilize their overproduction. This shrinking of the already declining red meat industry will result in accelerated exit from agriculture of large numbers of livestock producers since meat producers cannot pass on higher input costs to consumers. This is clearly an example of the negative consequences on one segment of agriculture as a result of attempts to increase the benefits of program crop producers.

3) Referendum. Proponents of mandatory controls have promoted the idea that such proposals would not take effect unless approved by producers in a referendum process. Three serious problems exist with the referendum concept.

First, it does not allow all producers or individuals who are impacted by mandatory controls an opportunity to vote. If livestock producers, nonprogram crop producers, and agricultural input suppliers were allowed to vote in the referendum, a more balanced response would be attained. Each of these groups has a major interest in this program.

Second, chaos would result if producers of one commodity voted to impose mandatory production controls while related industries rejected them. The cross commodity interaction that normally occurs in the marketplace would be completely disrupted.

Third, our representative form of government does not provide individuals the right to determine the level of direct government support through the referendum process. We believe our Constitution provides representative adoption of public policy rather than popular referenda for good reason. It would not be reasonable to extend a referendum to recipients of Social Security or welfare, for example, to determine the level of benefits distributed through those programs and neither should agricultural benefits be determined in this manner. Those paying ever higher social security taxes would probably like to vote too.

4) Trade Implications. Mandatory production control proposals rely on extremely costly export subsidies or export cartel arrangements. Both of these ideas would prove disastrous for American agriculture and world trade.

Export subsidies would not only cost $9-10 billion annually and, thus, make controls at least as costly as the current program, but would also create a contraction of world trade and would elicit protectionist responses as well as increased use of export subsidies by other nations.

The use of subsidies coupled with the restrictive trade barriers that would need to be erected in order to keep commodities from other nations out of the United States would trigger trade wars and restrictive trade policies that would only limit opportunities for U.S. agricultural exports. In all likelihood, this would lead to completely protectionist trade policies for all products. This reversal in the U.S. commitment to expanding mutually advantageous forms of trade would result in worldwide economic recession or depression.

As an alternative to export subsidies and import barriers, proponents of mandatory controls have proposed the use of commodity cartel agreements. Such cartels have never been successful in the past. While attempting to make cartels work, the largest producer in a cartel must curtail output in order to entice smaller producers to remain active participants in the cartel. The U.S., as the major supplier of agricultural exports, would need to drop its market shares to very low levels. Cartels are defined as an unfair trade practice in most current versions of omnibus trade legislation. Our competing export nations recognize that cartels would be to their advantage and have proposed this idea for years predicated on restricted levels of U.S. exports. American agricultural exports would wither to nothing under such a proposal. Farmers would find themselves in the position of Saudia Arabia that has cut its oil output from over 10 to just over 2 million barrels a day trying to prop up world oil prices.

5) Carryover Supplies. Recent analyses of mandatory control proposals have projected that they would achieve no reduction in our current burdensome carryover stock levels. Agricultural prices, under market conditions, simply cannot respond in a positive fashion unless carryover stocks are reduced.

The claim that producers under a mandatory control proposal will receive their income from the marketplace is inaccurate given continuation of carryover stocks at current levels. Adoption of a mandatory control law will not repeal the most basic economic law which relies on supply and demand to set prices. With continuation of large carryover stocks, the prices guaranteed under mandatory control programs can never be achieved in the marketplace.

6) Maximum Acreage Reduction Requirements. Current versions of mandatory control programs propose that no farmer will need to set aside more than 35 percent of his acreage. Recent studies show that this is grossly insufficient to reduce carryover supplies. It would be particularly ineffective if domestic users and foreign buyers reduce consumption through use of substitute products and expanded purchases from other suppliers.

Therefore, a mandatory control program with a 35 percent limit would become much more costly than projected, or through legislative amendment, the maximum set-aside requirement would have to be raised to levels that would be necessary to balance supply and demand. We project those levels to be in the range of 50 to 75 percent acreage reduction which would devastate agriculture and the economic infrastructure which supports it.

7) Budget Impact. The high cost of the export subsidies needed to move the excess production into trade channels runs the cost of mandatory controls beyond the cost of the present program. This then caused the proponents of controls to chase after the idea of farming an export cartel.

8) Young Farmer Impact. One of the key considerations that never gets discussed is that the ultimate cost of allotments and quotas would become input costs to those young people trying to get started in farming. This added cost would render their production uncompetitive relative to those who were blessed with a government issued franchise to produce and sell. Farming needs good young producers in order to maintain its vitality.

9) Examples of Similar Programs. American agriculture has never adopted a mandatory control program exactly like that proposed by Senator Harkin. There are examples of similar programs in effect in U.S. history and in other nations. None have been particularly successful. During the 1950's and 60's restrictive agricultural programs in the United States resulted in excessively high carryover stocks, reduced participation in world trade and a decline in the number of family farms from nearly 6 million to less than 3 million. This experiment in government planning could hardly be called a successful program or one designed to save family farms.

Another example that should be evaluated is the European Community's Common Agricultural Policy. Such a program, providing high domestic prices and massive export subsidies, has been extremely costly to economic growth and higher living standards in the European Community, has resulted in excessive levels of carryover stocks and has worsened trade problems between the Community and other competing export nations including the United States.

Farm Bureau views the adoption of mandatory controls as a disastrous policy for program crop producers, livestock producers, nonprogram crop producers, young farmers and ranchers, agricultural exports, and the economy as a whole. This kind of program has been attempted and has never been successful. Such a proposal violates too many basic economic principles to succeed.

I am surprised that the proponents of mandatory production controls generally have been those who have been the most critical of U.S. government handling of agricultural policy under both Democratic and Republican administrations. I do not understand how those people who have repeatedly criticized government management of agricultural programs can now propose to increase the governmental power to intercede in the marketplace after basing so many arguments upon mismanagement. It seems illogical that the response to poorly managed government programs in the past should be to increase the government power to intervene in agriculture on such a grand scale.

Proponents of mandatory production controls offer the enticing lure of higher prices as a means of achieving greater farm income. Farm Bureau believes that the benefits of this program are an illusion. The reality is that American farmers would suffer irreparably from the adoption of mandatory production controls. We do not succumb to the simplistic allure of the promise of higher prices and mandatory production controls as the solution to problems facing many farmers.

"DECOUPLING"

The term "decoupling" has been used to describe many different farm program proposals and therefore is imprecise in terms of definition. Decoupling is most frequently used to refer to the concept of a 0/92 program whereby producers of farm program crops would have the option of not planting on program crop permitted acreage and still receive 92 percent of the deficiency payment. Other decoupling proposals, however, would go much further in breaking the linkage between the producers' responsibility and requirements as a condition of eligibility for program benefits which include not only income supplementation (i.e., deficiency payments) but also price support loans, storage payments, and other forms of program benefits.

In addition to our basic opposition to changes in the 1985 farm bill, we have some secondary concerns about both the zero planting option and the broad-based decoupling concept. If a zero planting option is provided to farmers, we are concerned about:

(1) Landlord/tenant relationships being disrupted in spite of well-intentioned efforts to protect the tenant.

(2) The zero planting option directly competes with the long-term conservation reserve program making it more expensive and difficult to take the 40-45 million acres out of production that should be enrolled for the purpose of conservation rather than solely for production adjustment.

(3) Producers, particularly those pressured by their bankers, may be misled into enrolling in 0/92 with the expectation of an income guarantee that may not exist if certain supply/demand conditions materialize.

(4) Competing nations are likely to interpret this program as an opportunity to expand production abroad causing greater pressure on U.S. exports.

(5) The zero planting option moves agricultural programs towards a system whereby payments are made for doing nothing. This would be a fundamental shift away from policies of the past 55 years and should be more thoroughly considered by farmers, ranchers and policy makers before being adopted.

If Congress were to consider the broader concept of decoupling, AFBF has concerns beyond our basic opposition to changing the 1985 farm bill. Some concerns in this area are:

(1) Income support remains the only focus of such a program abandoning such important facets of farm programs as market stability, program features to provide producers additional marketing tools, production adjustment and conservation.

(2) True decoupling renders this income payment a true entitlement program based solely on program crop production history. Producers will be denied benefits under such a program for no reason other than choosing not to participate in the previous program or not producing a program crop.

(3) Nonprogram crops will be adversely affected by increased competition that would result not only from market signals encouraging that production, but also from subsidy payments that would create an advantage for previous program participants at the expense of the nonprogram crop producer.

The decoupling concept offers a simplistic solution to our current problem of excessive carryover supplies. It also embraces the feature of eliminating the need to produce in order to maximize program benefits. No in-depth analysis of its impact on the structure of agriculture and the response at the farm, state, national and international levels is yet available, however.

American agriculture needs stability and predictability in operating under the 1985 farm bill, not greater uncertainty. The concept of decoupling may or may not be a viable option in the future, but for the time being, the 1985 farm bill offers U.S. agriculture the best practical response to the problems facing our industry.

COMPULSORY USE OF MARKETING LOAN FOR WHEAT, FEED GRAINS AND SOYBEANS

Farm Bureau has been supportive of the use of the marketing loan in the cotton and rice programs. We do not believe, however, that the success in those programs necessarily means that the identical policy instrument would be effective and cost efficient if applied to wheat, feed grains and soybeans. AFBF policy does not support the use of the marketing loan for these commodities because our members are not convinced that the use of the marketing loan would produce sufficient response in the world market to merit the additional cost associated with using this tool. Furthermore, our voting delegates expressed concern that the additional cost would need to be offset by other agricultural function savings that could not be effected without major adjustments to the fundamental policy provisions of the 1985 farm bill.

Those who espouse expansion of the marketing loan as a panacea for expanding demand and reducing carryover stocks fail to consider that the U.S. position in the world market for these commodities is different from that of our role in world cotton and rice trade. In wheat, feed grains and soybeans the U.S. is the dominant supplier in the world, which makes us both the largest single supplier as well as the residual supplier to the world. The corresponding statistics for cotton and rice do not indicate the same extent of market dominance.

The effect of adopting the marketing loan for wheat, feed grain and soybeans would be to reduce our prices in competition with a price that is primarily set by the U.S. We therefore would be competing mostly with ourselves, while allowing prices to free fall at the expense of the U.S. taxpayer. We do not believe that the response in the world market will result in sufficiently expanded exports to offset the substantial cost of adopting the marketing loan.

The use of generic certificates has allowed market prices to seek levels below the loan rate while protecting producer income. The certificates have provided the same effect as a marketing loan without the exorbitant costs, and therefore have served the function of the marketing loan in bringing about a greater degree of price competitiveness. We think that their use should be continued and in some cases expanded.

SOYBEANS

We recognize that soybeans have faced certain negative consequences as a direct result of changes to farm policy under the 1985 farm bill. The effect of more competitive loan rates and the use of certificates in feed grains has, without a corresponding adjustment to soybean loan rates, created a marketing advantage for feed grains in domestic markets and foreign soybeans in international markets. The problem with simply cutting the soybean loan rate is the lack of income protection in the form of a soybean target price.

Farm Bureau has struggled with devising an appropriate response to this problem that comes as a direct result of farm policy changes in the farm bill. Our Board of Directors has approved action that would bring about greater competitiveness in soybeans while adequately protecting producers' income.

The proposal would call for sufficient adjustment in the effective price support level for soybeans to provide effective market competitiveness with producers eligible for an income supplement payment made in soybean specific or generic certificates. This position has been communicated to Secretary Lyng in correspondence and in personal meetings. We believe that such a program could be put in place without a legislative amendment to the Food Security Act of 1985.

Only through carefully constructed programs which allow market forces to send signals to producers and reduce the burdensome levels of carryover stocks will American agriculture prosper. We believe that the current farm bill provides the right general direction and, although imperfect, should be maintained as the direction of agricultural policy for the remainder of the 1980's.

Thank you for the opportunity to testify today. I would be glad to respond to questions.

Senator MELCHER. Dean, I will ask you the same question I asked Corky. What do you recommend for the disposal of the CCC held surpluses of corn and wheat as well as the farmer owned surplus for those two commodities.

Mr. KLECKNER. Mr. Chairman, I was listening to your question to Mr. Jones and I was—I am kind of curious and I guess I do not know the answer.

He indicated that he lives just across the line from my home State of Iowa, in Nebraska—about substantial amounts of CCC owned corn—I cannot speak for wheat—in temporary storage.

And I guess—I am kind of wondering—if that was the 1986 crop, it may be under loan, but it would not be CCC owned at this point unless I am mistaken. It would be owned by someone with a loan on it, either the farmer that has it in temporary storage or perhaps a local grain elevator.

And it may, indeed, at one point be turned over to CCC, but I think the last year's crop is farmer owned or owned by private hands.

I cannot disagree with what I heard him say about using this ethanol production. Substantial amounts of grains are being used for that now. Perhaps more should be used and we are friendly to that.

It just simply has not been competitive and is not yet even with $20 a barrel oil. Is it competitive without substantial subsidies?

In addition, as a farmer, I use the generic certificates and I am redeeming the corn that has been under loan on my farm. I am actually feeding it.

Most of my neighbors that do not have livestock are selling it and it is moving into commercial hands for feed or usage in some way or for export.

I understand there will be close to a 5 billion bushel carryover come this fall, but not all that would be in CCC. There always would be some carryover. I think that is a thing that we need to remember. And some carryover is just normally needed to make market channels work.

Senator MELCHER. Dean, is corn still stored on the corner lots or parking lot facilities in north central Iowa?

Mr. KLECKNER. No. Mr. Chairman, I am not aware of any. I do not drive through all the little towns. My town of Rudd is 400 and some people. I do not get through all those towns.

They have a large co-op that had adequate storage. Last fall, we had a big crop. But they built some new storage, the co-op did, flat storage and had enough along with what farmers have on their farms.

I am not aware, sir, of any—I presume there may be some, but I have not seen it and I am not aware of any from firsthand knowledge.

Senator MELCHER. Well, the 5 billion bushel carryover that you just mentioned is a significant carryover of corn. My question is simply to that point, would you suggest getting rid of it and if so, how?

Mr. KLECKNER. Am I what?

Senator MELCHER. Would you suggest getting rid of it and, if so, how? For instance, the corn that went under loan last fall and last winter soon will either be redeemed or will be owned by the CCC at some point this summer.

Mr. KLECKNER. That is a multifaceted question, Mr. Chairman.

Senator MELCHER. Well, I will break it down.

Mr. KLECKNER. OK, but let me try to answer it. Not all of that will be in CCC hands come October 1. Some of it is now and maybe some more will be going in.

It is more than is needed. It is the alltime high carryover corn to my knowledge, even above 1983 or 1984, which was the previous high year as I remember.

But I think it is interesting to note that the weather scares that we are having now with the heat and the drought in much of the Nation, including your State, but in the green areas of the Midwest, from the Canadian line down to Texas, we had a substantial move in the market price of both corn and soybeans a couple of weeks ago when the real drought scares were eminent.

Then they tapered—the market dropped some last week as a few spotted rains came through, but it is still hot and dry. That despite the 5 billion bushel corn crop, the market did move up some in response to what was perceived to be the possibility of a lower crop this fall.

It is an overhang of the market and that is one thing I mentioned in my testimony that we have to get the stocks under control.

You cannot have the market responding and market moves with that size of an overhang. I would think that we could work that down some in the coming year.

Exports are picking up a little—of most commodities. The United States this year actually is going to export 18 percent—that is a projection now—18 percent more tonnage than we did last year. So, for the first time in 4 or 5 years, exports are picking up. I think that is in response, actually, to the 1985 farm bill.

And corn is one of those that is—and wheat—are both also picking up I understand.

So, we are going to export some of it. We are still going to have a substantial overhang. I do not think there is a good answer, Mr. Chairman, for getting rid of it.

A number of things that will be talked about—have been talked about and will be talked about—will be partial answers, but I do not think there is a simple answer to getting rid of 5 billion bushels very quickly.

Senator MELCHER. Thank you.

We have the chairman with us now.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Thank you, John. I am delighted you are holding these hearings. I think they are extremely important. I said at the beginning of the year we would look at the farm bill.

I am not eager to rewrite the 1985 farm bill, probably because it took 16 or 17 months in committee conference to get the last one through.

But I do not feel that having passed it that we should just ignore it or that there are no parts that could be reopened. We know some parts are working. We know there are some other areas, though, in which we have some very real concerns.

So, I think the 3 days of hearings that you are going to have on this will give us a comprehensive overview. Certainly, as I look at the witness list, you will hear a wide range of viewpoints.

A number of committee members have come with me around the country. I know from my 13 years here that we have a lot of hearings inside this committee room, but I sometimes worry that we do not have enough outside the committee room.

And I know, John, you have held hearings all over Montana and in other areas, and sometimes you hear different things.

In my mind, in the 13 years I have been here, no hearings have been as productive and moving as those that we had in Minnesota, Iowa, North and South Dakota, Nebraska, and Georgia. And we are going to have hearings in Vermont and in other places.

We heard from some very hard working and productive people who were struggling to hold on. Many of them looked to us for help in saving the family farm, its lifestyle, and the values it nurtures.

Certainly, speaking to somebody from a rural State like my own, they found a receptive ear. And I was moved by what I heard. This was not the professional testimony that we often hear. It was straight from the heart.

I would like to refer to one of the witnesses in Georgia, Janet Griner, and a couple of things she said.

Janet told us about the heartbreak that is all too common on our family farms. We were standing out in a field; we had held the hearing outdoors.

I remember her standing there in front of a group of people, in overalls, and giving her statement, which she had handwritten, in a very clear voice. And it was a restive group. It was a hot day.

After she started speaking, very soon the place was absolutely silent. Everybody listened to her.

She said,

> Farming has become an impossible dream. It breaks my heart to think that there will not be another generation of family farmers who own their land and raise their children to follow in their footsteps. I dread to think of the day that farming is done by someone who is working only for a salary and not for the love of the land as well.
>
> I hope someone realizes what is happening soon. I do not have the opportunity to give my two children the lifestyle I had as a child. They do not know what they are missing, but I know.
>
> I cannot continue the farming tradition—I have got to go where I can make a living. It is not my first choice, but it is the only choice I have left.

Now, this young woman is 29 years old. She told us about, even as a little child, following her father through the fields. He had followed his father.

Her story is as eloquent a discourse on public policy as you will ever hear. I think the committee owes her and thousands of others like her our best efforts to solve our current farm problem.

We do have parts of the farm bill that are not working. We do have some situations, especially in the Midwest and Upper Midwest where I am concerned that we are not adequately addressing the problems.

Mr. Chairman, I have to tell you how much I appreciate the fact that you are having these hearings. They are extremely important, not only with regard to our oversight responsibilities, but it is extremely important to a lot of people out there who tell us they want to continue in farming. But unless we listen and respond to their problems, they will not be able to do so.

I think it is extremely important for all of us who are concerned—and we would not be on this committee if we were not—to try to find where necessary changes must take place.

I did not mean to come in with a long speech and I will not talk any longer. I am more interested in hearing from the witnesses than the witnesses are in hearing from me.

But I just wanted to state, Mr. Chairman, I applaud you for holding these hearings.

Senator **MELCHER**. Well, thank you very much, Pat, and thank you for your excellent statement. It will look good in our record and it is needed.

[The prepared statement of Senator Leahy follows:]

PREPARED STATEMENT OF SENATOR PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT, CHAIRMAN, SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Mr. Chairman, I want to thank you for holding this series of hearings on the current status of our farm programs. These three days will provide a comprehensive overview and allow a wide range of viewpoints to be heard. The issues before us are both timely and important.

As those of you who went with us know, few hearings were as productive or as moving as our visits to Minnesota, Iowa, North and South Dakota, Nebraska and Georgia. We heard from hard working and productive people struggling to hold on. Many of them looked to us for help in saving the family farm and the lifestyle and values it nurtures. The words of one of our witnesses in Georgia, Janet Griner, have stayed with me.

Janet told us about the heartbreak that is all too common on our family farms. But her words say its best:

"Farming has become an impossible dream. It breaks my heart to think that there won't be another generation of family farmers who own their land and raise their children to follow in their footsteps. I dread to think of the day when farming is done by someone who is working only for a salary and not for the love of the land as well.

"I hope someone realizes what's happening soon. I don't have the opportunity to give my two children the lifestyle I had as a child. They don't know what they are missing—but I know.

"I can't continue the farming tradition—I've got to go where I can make a living. It's not my first choice—but it's the only one I have left."

Janet Griner is only 29 years old, but her story is as eloquent a discourse on public policy as you'll ever hear. This Committee owes Janet Griner and thousands of others like her our best efforts to solve our current farm problems.

Mr. Chairman, these hearings are an important step in our Committee's work in this critical area. I look forward to the testimony of the witnesses before us today.

Senator **MELCHER**. Our next witness is Edwin Graf, special assistant to the president of the National Farmers Organization.

STATEMENT OF EDWIN J. GRAF, SPECIAL ASSISTANT TO THE PRESIDENT, NATIONAL FARMERS ORGANIZATION, CORNING, IA

Mr. **GRAF**. Mr. Chairman, I appreciate this opportunity to speak before the subcommittee. Mr. Woodland, our president, would have liked to have been here, but due to changes in your schedule, he could not make it.

I am his special assistant from the home office, the national office in Corning, IA. And I am here to speak for our members and producers and I would like to make a point of that, all the members of the National Farmers Organization are agricultural producers. If they are not producers, they immediately lose their membership.

I am speaking in behalf, perhaps, of the midrange sized operators on the farms and ranches. I do want to emphasize that view because of the probable disparity that will develop if the Government continues its low prices for the major commodities accompanied by some of the large payments for some crops.

You know, in this country they are beginning to have a real resentment among those producers out there that they must depend on the Government for a substantial portion of their income.

The National Farmers Organization is making this attempt to bargain for those people at the marketplace with processors and negotiating contracts. Quite frankly, we cannot reconcile the statements of those who oppose the so-called mandatory programs, but endorse the operation of the Food Security Act of 1985. From an economic standpoint, the present program is mandatory and we did not get a chance to vote on it.

In the act the loan rate is reduced, prices were drastically lowered and we are forced to depend on Government payments. Now, you are confronted with very difficult problems in the national budget and at some point in the near future you will probably be forced to cut those payments to the farmers that they are depending upon today.

As farmers and businessmen we cannot understand why those who are responsible for the operation of this Government continue on their current course.

We hear about a disaster that may be coming. We are in a disaster. I am not concerned about the disaster that is coming. I am trying to do something now to correct the disaster with the failures of the banks, now with the failures of the people on the farm, now with the Farm Credit System that is in trouble. And I fail to see lower prices as correcting that.

We believe the only reasonable course open to us at this time is to consider carefully new farm legislation.

We are witnessing an all out campaign conducted by the opponents of supply management. It is has been well under way since the holidays.

I ask the question: Why do you suppose some organizations are pretending to speak for agriculture—are so intent upon avoiding referendums on supply management that apparently works for everyone else? Why are we opposing that? Why is anyone opposing that?

We can hardly believe that the pretense of noble accomplishment and expansion of our grain exports is supported by any factual increase in shipments abroad at costs we cannot afford in this Nation.

A mandatory production control proposal providing for the most dramatic change in agricultural policy is being widely discussed today. The Harkin bill [S. 658], supported by Congressman Gephardt and others in the other body. If adopted by producers in referenda, it would immediately increase net farm income. It is one proposal permitting producers to decide, through referendums, what type of programs they want.

I fail to see why others outside of agriculture have an idea they know how to solve agriculture problems better than the producers.

Senator Leahy commented on what is happening to the people in agriculture. And we believe very strongly that they should have a referendum and move toward some type of new legislation.

I am going to finish on this note. You have the full text of our prepared statement and our testimony.

I understand you will soon be dealing with the problems of the FCS and other credit issues. You know, a number of people are talking about land values, wishing for a turnaround in the market. If the producer prices would turnaround in the market, the land values would take care of themselves.

We saw what happened to land values when prices went down. They will react just the opposite if fair prices come back into agriculture.

At some time you will have to deal with the huge budget deficit, the imbalance of financial commitments to defense and interest payments versus other responsibilities of the Government.

We are quite willing to work with you toward such an objective of this type.

Also, Senator Harkin has stated on a number of occasions if someone offers a better bill, it should be considered fairly and quickly. If the Harkin bill is unacceptable to the Senate, maybe we should think about a two-price program.

Domestic farm policy, we believe, should be defined on its own merits. Foreign trade and related issues should be dealt with separately.

Farmers should not be expected to bear the burden of a trade war in the form of these very low prices.

We urge you to move ahead with the development of a viable farm program. And with that, Mr. Chairman, I would be glad to answer questions you may have.

[The prepared statement of Mr. Graf follows:]

NATIONAL
FARMERS
ORGANIZATION

Subcommittee on Agricultural Production
and Stabilization of Prices
Committee on Agriculture, Nutrition, and Forestry
United States Senate

STATEMENT
Edwin J. Graf
National Farmers Organization
June 23, 1987

A BETTER FARM PROGRAM FOR GRAIN PRODUCERS

Mr. Chairman and members of the Committee, we appreciate the opportunity to present our views relating to the need for a new farm program and better prices for farmers. I am Ed Graf, Special Assistant to the President, National Farmers Organization, with headquarters in Corning, Iowa. Mr. Woodland wanted to be here today, but a change in your schedule of hearings made that impossible.

In the National Farmers Organization all our members are producers. Our main activity centers in bargaining for better prices. Although we do not have large membership numbers in all the States represented on your Committee, we have continued to grow as an organization in recent years. Since we are producers of cattle, hogs, milk, grain and some minor commodities, we appear before you largely in behalf of all mid-range owner-operators of our farms and ranches. That point of view is emphasized because of the probable disparity that will develop if the government continues its current low price policy for the major commodities, accompanied by large payments from the Treasury to producers of some crops to shore up an otherwise meager net farm income.

In this country there is deep resentment of the fact that we must rely upon government checks for a substantial portion of our income. In far too many communities today we are dependent upon Social Security checks, the ASC payments, and other sources of government relief to support the economy. A substantial portion of net farm income is now derived from such sources. Quite frankly, we cannot reconcile the statements of those who oppose so-called "mandatory programs" but endorse the operation of the 1985 Food Security Act. From an economic standpoint, the present program is now mandatory and we did not even vote on it.

In that Act you reduced our loan rates and prices drastically and forced us to depend upon those payments for income. Now you are confronted with very difficult problems in the national budget and at some point in the near future you will probably cut those payment rates, again reducing our farm income.

National Implications

Writing recently under the title "Avoiding a Crash: Public Investment, Private Regulation," Dr. Frederick C. Thayer, Professor in the Graduate School of Public and International Affairs at the University of Pittsburgh, stated:

> "Despite evidence to the contrary, most politicians and economists still tend to view unregulated competition as a sure prescription for prosperity and peace. This standard economic view reverses the true order of things, defining the problem -- overcapacity and overproduction -- as the solution, and the solution -- economic regulation -- as the problem. Because overcapacity is both the inevitable outcome of unrestricted competition and a recurring cause of depressions, we can avoid future worldwide depressions only by inventing mechanisms to restrict excessive competition and ensure full employment. No major industry can remain viable without some form of administrative machinery to regulate capacity, output, prices, wages, and, in many cases, imports and exports. Only permanent regulation -- whether formal or informal -- can prevent overcapacity and overproduction and thus ensure a smoothly functioning and growing world economy."

When the 1985 Act was passed, the Congress missed an opportunity to provide for more effective administration of a program in bushels and pounds. Producers were not given a means to control marketing. In our opinion you have placed yourselves in an indefensible political position and farmers in an economic squeeze that they cannot withstand. We believe that Act must be re-examined. An alternative approach should be given serious consideration as soon as possible because the farming sector is an important part of the national economy.

Need for Change

We did not arrive at our present policy position in the NFO easily. There have been a number of bitter lessons dealt out to us in the 1980s. As farmers and businessmen we cannot understand how those of you who are responsible for the operation of this government can expect to continue on the current course. The annual budget deficit, the imbalance in our foreign trade, the economic well-being of our financial institutions and the huge build-up of expenditures in operation of the farm program all point to the need for a more effective program that can be run at less expense for the U.S. taxpayer. We believe the only responsible course open to you at this time is to consider carefully the need for new legislation.

Please let me remind you of some events of the recent past that bear on the subject of this hearing. The Congress provided for a poll of wheat producers to learn the prevailing attitude on a mandatory wheat program. By a strong majority producers indicated that they wanted a referendum on such a program. They voted their best judgment of this question and asked for such a referendum in spite of the bold efforts of the Administration and agribusiness organizations encouraging a negative vote. It now appears that you wish to overlook the results of your own poll.

We are witnessing an all-out campaign conducted by the opponents of supply management that has been well underway since the Christmas holidays. Why do you suppose some organizations that are pretending to speak for agriculture are so intent upon avoiding referenda on supply management programs? Perhaps some of those who are contributing the most time and effort to prevent farmers from expressing their own will on this question will come forth with honest explanations of their actions. We can hardly believe that the pretense of noble accomplishment in expansion of our grain exports is supported by any factual increase in shipments abroad at costs we can afford as a nation.

Inconsistent Actions

When the Congress put together the Food Security Act of 1985 you did not hesitate to invoke certain mandatory provisions. You imposed mandatory check-offs on hogs and cattle that must really be appreciated by the public relations firms, without giving us a vote in referenda for a couple of years after those check-offs became effective. That involves hundreds of millions of dollars out of our pockets. For a number of years you have consistently stayed with an old provision of law permitting block voting on milk market orders by cooperatives, thus effectively surrendering the voting rights of individual producers to the management group in those important decisions.

Under the 1985 Act you established the lowest prices received by farmers in 50 years. Can you imagine a more mandatory feature in a farm program than "dollar a bushel" corn prices at harvest time and offering a payment of $1.20 a bushel to program participants? Money lenders have required their borrowers to sign up with the ASCS. Even the most conservative people who have always condemned farm programs have signed up to get the money where they must depend upon farming for income.

With those precedents established by the Congress it would be inconsistent, to put it very mildly, if you refuse to give grain producers referenda on supply management programs that might work off the surpluses and bring about reasonable prices.

Pending Legislation

A mandatory production control proposal providing for the most dramatic change in agricultural policy is being widely discussed today. It was introduced by Senator Harkin and other Senators and by Congressman Gephardt and others in the other body. If adopted by producers in referenda, it would immediately increase net farm income through the marketplace by placing a floor under wheat, feed grains, upland cotton, rice, soybeans and dairy products. It is one proposal permitting producers to decide, through referenda, what type of program they want.

Government cost would be slashed dramatically. Expenditures would be cut by as much as $12 billion in FY 1989 alone. Estimated annual average cost for FY 1988 through FY 1991 would run about $8.2 billion.

Net farm income would rise to an annual average of approximately $41.2 billion for the period 1988-1991, compared to $29.0 billion under current legislation.

That bill also requires the President to enter into multilateral negotiations with other food exporting nations to increase world market prices and preserve market shares. If, after nine months, a multilateral agreement has not been consummated, then the Secretary would be mandated to use export subsidies (PIK or cash) to promote exports.

The new proposal provides for a strong "back-up" position assuming the U.S. is unable to negotiate an agreement with other exporting countries. These tools put us in a much stronger position at the bargaining table than that currently provided in the 1985 legislation. What makes our position so weak under current legislation is that we are dropping our domestic prices so artificially low in an attempt to "compete" in the world market that we are literally destroying rural America, an important segment of our national economy.

This is recognized by our competitors in every country in the world. The threat of extended depression reaches into their economies also. Remember, we export 30% and use 70% of our production for domestic consumption. Think how much more competitive we would be in the world market if we had a strong domestic agricultural economy and targeted government expenditures to the 30% export portion, rather than trying to compensate farmers through inequitable government payments on 100% of production.

Conclusion

Let me finish on this note. You soon will be dealing with the problems of the FCS and other credit issues. A number of people are talking about land values and wishing for a turnaround in that market. In my judgment you should first act to improve the prices for major commodities. That would permit us to pay up our bills. Then land values will improve in due time and the ability to repay debts will be re-established.

At some point in time you will have to deal with the huge budget deficit, the imbalance of financial commitments to defense and interest payments versus other responsibilities of this government. You can devise a farm program that would be less expensive and much more responsive to the needs of farmers and our national welfare. We are quite willing to work with you toward such an objective.

Senator Harkin has stated on a number of occasions that if someone offers a better bill it should be considered fairly and quickly. If the Harkin proposal is unacceptable to the Senate, perhaps we should consider a two-price program. Domestic farm policy should be defined on its own merits. Foreign trade and related issues should be dealt with separately. Farmers should not be expected to bear the burden of a trade war in the form of very low prices for all their production while the diplomats conduct endless conversations. We urge you to move ahead with the development of a viable program.

Senator **Melcher**. Ed, I have the same question for you that I had for Corky and Dean. What would you suggest that we do to the surplus of wheat and corn that we now have in this country?

Mr. **Graf**. I agree that the ethanol plants should be maintained as a possibility that that may be something we need very desperately in the future. We never know about our oil supply.

But there is more than that. If we look at the exports and the imports and the amount of production coming into this country. I could hardly believe one day when Paul Harvey mentioned that we had imported more agricultural products than we had exported.

And I thought what if we produced the cattle and the hogs needed to eat the grain, to use some of that grain that is not being used because of these imports.

You see, I think the Government can play an important part in agriculture. I do not want the Government completely out of agriculture, because they are involved in it with the exports and the imports and programs—School Lunch Program and welfare and things like that deal with food.

But I believe there is an opportunity there to use more of our surpluses.

I would like to give you my thought on the comments made previously to this, if those surpluses as was indicated are lowering our price, then certainly there has to be a way to eliminate some of those surpluses for the good of people.

Maybe, there, we should be discussing a two-price system where some of this could compete in the world market, the excess, but not, I do not believe, to have all of our production having to compete in world trade, to depress all of our prices.

So, there is about three things I would like to see explored there, maybe a two-price system, watching our borders a little bit so we could feed more cattle and more hogs, use more of our grain in this country that is produced.

Plus, I am in favor of the farmers having a referendum and having controls on production.

I happen to be old enough to remember the eras when we used controls in an emergency. I am not suggesting the killing of little pigs and the plowing down of a corn row here and there.

And farmers and the country enjoyed 100 percent of parity and more in agriculture and the Department was run on a very small budget compared to what we are looking at today, which I think all of us agree is ridiculous. Those are my comments on that, Senator.

Senator **Melcher**. Ed, do you think the export enhancement is a two-price system?

Mr. **Graf**. Do I think it is? I am not sure, Senator.

Senator **Melcher**. It has the same effect to the extent that it is use, does it not?

Mr. **Graf**. Yes.

Senator **Melcher**. Thank you very much, Ed.

Our next witness is Cy Carpenter, president of the National Farmers Union.

STATEMENT OF CY CARPENTER, PRESIDENT, NATIONAL FARMERS UNION

Mr. **Carpenter**. Thank you, Mr. Chairman. I certainly appreciate the opportunity to appear before you and your subcommittee. I certainly want to commend Chairman Leahy for your action, your witnessing, your comment.

I think as you indicated, the witness in Georgia probably says it more eloquently than any of us can, but we do appreciate the opportunity to share in the discussion and make comment at this time.

For the record, my name is——

The **Chairman**. I wonder if I could interrupt on just one point. You know, I should mention one of the things that has helped the most during the field hearings. I had asked all the Senators who joined me in the hearings not to stay in hotels when they attend the hearings, but to stay with farmers in the area who were willing to put up a Senator for the night. We helped out, make up our own bed, wipe dishes. We tried not to do too much damage to the farm by helping out with the chores.

My wife and I have stayed at several farmhouses and it is very interesting. Other committees should do the same. Sometimes the testimony you hear in the evening when you are sitting around just chatting before you go to bed or at breakfast the next morning has been the most eloquent and most meaningful and the most lasting, even more than what is on the record.

You know what that is like yourself. When you stay with a farm family and sit around and talk you hear how programs are affecting people. Here we could talk about "Program Section 32-B(4)." And there you hear about what happens at the end of the month and you have to pay the electric bill.

Mr. **Carpenter**. You are certainly correct. I think the importance is that you are actually sharing with them the condition and a little bit of their lives and I think they appreciate it as well as increasing their opportunity to provide information.

For the record, my name is Cy Carpenter. I am president of the National Farmers Union [NFU]. NFU is a general farm organization representing 250,000 farming and ranching families across the Nation and our rural communities. I am here today to share the concerns of these producers of food and fiber.

We have what I think is a comprehensive statement, but, Mr. Chairman, I would like to read the first couple of pages and then submit the rest for the record and the consideration of you and your staff.

Senator **Melcher**. It will be made part of the record, Cy.

Mr. **Carpenter**. Ours is a grassroots effort to preserve the family farm system of agriculture in the United States. The positions we bring to you in Washington, DC come from farmer members.

We are confronted today with a very substantial effort toward a hostile corporate takeover of production agriculture and the rural communities.

At our March 1987 convention in Forth Worth, TX, the delegate body carefully debated all of the proposed alternatives to current farm programs, and eventually approved a proposal to endorse the concept of the Harkin-Gephardt Save the Family Farm Act. Given the fluid nature of legislation, we found it unwise to endorse a specific bill at an annual meeting, but as introduced, the Harkin bill was and is the only legislative initiative that addressed many of the National Farmers Union's greatest concerns; namely, the input of farmers, through referendum, in the policies and programs under which they work; the improvement of net family farm income; control of surplus production in a manner that most directly affects those operations most directly responsible for overproduction; debt reform that is fair to borrowers and lenders; encouragement of conservation practices; a change in the role of government from being the market to facilitating the market; and, assurance to the public of a safe, stable food supply, and protection of our farmland.

And we have a copy of our policy attached.

[EDITOR'S NOTE.—The material is retained in the committee's file.]

Mr. CARPENTER. At this point, Mr. Chairman, no one can dispute that there are problems in American agriculture and that the impact of those problems reaches far beyond the farm gate. The disease of farm failures infects our rural businesses, banks, and communities and drives our young people to the cities to look for work. Urban industries, such as steel, and others, that rely on agriculture as a major customer are seeing their sales fall off.

Banks holding large loans from less developed countries—often with agrarian-based economies—are bracing themselves for tremendous losses as these debtor nations watch world prices forced beneath their ability to repay from sales in the export market. Industrialized nations once plagued with hunger are now faced with surpluses they can only sell using costly subsidies and a social policy committed to remaining self-sufficient in food. Our problems in agriculture are no longer ours alone. Serious problems exist in agriculture throughout the world. Mr. Chairman, production agriculture is in crisis or severe financial distress in every substantial nation in the world today. Clearly, it is time for new agricultural policies to be applied.

Any policy, to be successful over the long run, must deal with several basic underlying facts of our current national and global economy.

First, industries are motivated by profit. Industries which are not profitable in one location will move to another more profitable site. Family farming must be returned to profitability in the United States. If the family farm system is allowed to fail, I assure you that whatever system replaces it will require a profit, including a return on capital investments, if it is to continue offering the service of food production. As with other industries, if no profit can be made producing in the United States, then production will move overseas.

Second, profitability from production agriculture only comes when supply is balanced with demand. Again, we can act now, with family farmers and government cooperating to balance supply and demand—allowing for profit while ensuring a stable food supply—or we can let the family farm system collapse and allow whatever system that replaces it to control our food supplies to assure a profit. Mr. Chairman, I think we all can be assured that any new agricultural system will demand control over the production levels of the goods it sells.We believe the only logical course of action is for the Government and our current system of agriculture to cooperatively bring supplies in line with demand through production controls. All Americans have a vested interest in keeping food production in this country and at levels ensuring stable availability of food.

Third, it is essential that farmers are involved and responsible in developing and implementing agricultural policies. Provisions must be made for referenda commodity by commodity, so that individual commodity groups cannot be pitted against each other.

Fourth, it is undeniable that we are a part of world agriculture. Discussions and negotiations with agricultural producers worldwide must be developed to secure better international agricultural policies. As the predominant nation in agricultural production and world trade, it is incumbent upon the United States to take the lead role.

The Harkin bill recognizes all four of these facts and is designed to deal with them. Then it goes beyond these primary considerations to necessarily address debt restructuring, humanitarian food assistance programs and the conservation of our natural resources.

It was for these most basic reasons that our delegates voted to endorse the concepts of the Harkin bill as being the best alternative for agriculture policies brought before Congress so far. As other proposals are brought forward, we will, of course, give them their due consideration and test them by our policy standards: restoration of profitability to agriculture, control of production to bring supply and demand in balance, farmer input, international negotiation, debt restructuring, humanitarian responsibility, and resource conservation.

The several other alternatives that have been proposed are inadequate, in our view, to meet the concerns mentioned above. Such ideas as establishing marketing loans, altering loan rates, reducing target prices, decoupling, or its most recent variation 0/92, and staying with the programs of the Food Security Act of 1985 all fall short of providing policy and direction that supports and sustains our present system of agriculture, our rural communities and the best interests of consumers.

With that, Mr. Chairman, I would stop and submit the rest of the prepared statement and respond to questions.

[The prepared statement of Mr. Carpenter follows:]

NATIONAL
FARMERS
UNION

Testimony of

Cy Carpenter, President
National Farmers Union

before

The Subcommittee on Agricultural Production
and Stabilization of Prices

Senate Committee on Agriculture, Nutrition and Forestry

June 23, 1987

600 Maryland Avenue, S.W. • Suite 202 • Washington, D.C. 20024 • Phone (202) 554-1600

Thank you, Mr. Chairman. My name is Cy Carpenter,and I am the President of the National Farmers Union (NFU). NFU is a general farm organization representing a quarter of a million farming and ranching families across the Nation and our rural communities. I am here today to share the concerns of these producers of food and fiber.

Ours is a grassroots effort to preserve the family farm system of agriculture in the United States. The positions we bring to you in Washington, D.C. come from farmer members.

At our March, 1987 convention in Fort Worth, TX, the delegate body carefully debated all of the proposed alternatives to current farm programs, and eventually approved a proposal to "endorse the concept" of the Harkin/Gephardt "Save the Family Farm Act" (Harkin). Given the fluid nature of legislation, we found it unwise to endorse a specific bill at an annual meeting, but as introduced, the Harkin bill was and is the only legislative initiative that addressed many of NFU's greatest concerns: the input of farmers, through referenda, in the policies and programs under which they must work, the improvement of net family farm income, control of surplus production in a manner that most directly affects those operations most directly responsible for over-production, debt reform that is fair to borrowers and lenders, encouragement of conservation practices, a change in the role of government from being the market to facilitating the market, and assurance to the public of a safe, stable food supply, and the protection of our farm land. Our policy statement is attached as Appendix A.

At this point, Mr. Chairman, no one can dispute that there are problems in American agriculture and that the impact of those problems reaches far beyond the farm gate. The disease of farm failures infects our rural businesses, banks, and communities, and drives our rural young people to the cities to look for work. Urban industries, such as steel, that rely on agriculture as a major customer are seeing their sales fall off.

Banks holding large loans from less developed countries (often with agrarian-based economies) are bracing themselves for tremendous losses as these debtor nations watch world prices forced beneath their ability to repay from sales in the export market. Industrialized nations once plagued with hunger are now faced with surpluses they can only sell using costly subsidies and a social policy committed to remaining self-sufficient in food. Our problems in agriculture are no longer ours alone. Serious problems exist in agriculture throughout the world. Production agriculture is in crisis or severe financial distress in every substantial nation in the world. Clearly, it is time for new agricultural policies to be applied.

Any policy, to be successful over the long run, must deal with several basic underlying facts of our current national and global economy:

* First, industries are motivated by profit; industries which are not profitable in one location will move to another more profitable site. Family farming must be returned to profitability in the United States. If the family farm system is allowed to fail, I assure you that whatever system replaces it will require a profit, including a return on capital investments, if it is to continue offering the service of food production. As with other industries, if no profit can be made producing in the United States, then production will move overseas.

* Second, profitability for production agriculture only comes when supply is balanced with demand. Again, we can act now, with family farmers and government cooperating to balance supply and demand -- allowing for profit while ensuring a stable food supply -- or we can let the family farmer system collapse and allow whatever system replaces it to control our food supplies to assure a profit. I assure you, Mr. Chairman, any new agricultural system will demand control over the production levels of the goods it sells. We believe the only logical course of action is for the government and our current system of agriculture to cooperatively bring supplies in line with demand through production controls. All Americans have a vested interest in keeping food production in this country and at levels ensuring stable availability of food.

* Third, it is essential that farmers are involved and responsible in developing and implementing agricultural policies. Provision must be made for referenda commodity by commodity, so that individual commodity groups can't be pitted against each other.

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The Harkin bill recognizes all four of these facts and is designed to deal with them. Then it goes beyond these primary considerations to necessarily address debt restructuring, humanitarian food assistance programs, and conservation of our natural resources.

It was for these most basic reasons that our delegates voted to endorse the concepts in the Harkin bill as being the best alternative for agricultural policies brought before Congress so far. As other proposals are brought forward, we will of course give them their due consideration, and test them by our policy standards: restoration of profitability to agriculture, control of production to bring supply and demand in balance, farmer input, international negotiation, debt restructuring, humanitarian responsibility, and resource conservation.

The several other alternatives that have been proposed are inadequate, in our view, to meet the concerns mentioned above. Such ideas as establishing marketing loans, altering loan rates, reducing target prices, decoupling or its most recent variation of 0-92, and staying with the programs in the 1985 Food Security Act (FSA) all fall short of providing policy and direction that supports and sustains our present system of agriculture, our rural communities, and the best interests of consumers.

The goal of the marketing loan approach is to make our products more competitive on world markets by dropping the price and allowing farmers to repay their loans with as little as 70% of the statutory loan rate. The government would absorb the difference and, of course, continue deficiency payments for the difference between the loan rate and the target price. Mandated for cotton and rice in the FSA, current proposals would extend the idea to wheat, feed grains, and soybeans.

In a time when the Congress is trying to control massive deficits and unprecedented farm program costs, such an approach is clearly impractical and cannot be sustained. Lesher and Associates' study (hereafter Lesher) of farm policy options claims that a large volume of commodities would become eligible, adding $2-3 billion to already skyrocketing program costs (p 19).

From NFU's perspective as a general farm organization, marketing loans are weak in that they only address a few commodities, and could not assure realistic and continued farm income in the commodities they serve. Also, as the Food and Agricultural Policy Research Institute of the University of Missouri-Columbia and the University of Iowa (FAPRI) points out, marketing loans would only work if competing countries do not take retaliatory measures (report #1-87, p. 9).

Altering loan rates also has the disadvantage of failing to address all commodities. Proposals to move loan rates down to market-clearing levels have been met with counter proposals to raise loan rates in order to save federal deficiency payment dollars without taking money from farmers' pockets. The FSA and the Findlay provision have combined to give the Secretary considerable latitude in respect to lowering loan rates, which he has used with great enthusiasm (Lesher, p. 19). Again, this appears to be an odd approach for an Administration that claims it wants the government "out of agriculture." Lowering loan rates farther will increase government costs without improving farm income, addressing farm debt, reducing over-production incentives, or in general addressing any of our agricultural problems here at home. Likewise, simply raising loan rates without recognizing the need for higher value for farm products would help budgetary problems for the government, but would have little impact on net farm income.

Lowering target prices is an option closely allied to lowering loan rates because it is the only way to diminish budget exposure due to deficiency payments. This technique saves money for the taxpayers by taking it directly from the pockets of the people producing the Nation's food and fiber. NFU will never support this technique, and the evidence is mounting that the taxpayers do not support such an idea either.

The most recent example of decoupling was the 0-92 provision made for producers of winter wheat who were unable to plant due to natural disaster. While 92% of deficiency payments can be a lifesaving measure in emergency situations where a disaster prevents farmers from planting a crop, as a long-term policy the idea is unacceptable. The goal of decoupling is to remove the incentive to overproduce by severing the link between the amount of production and the amount of government payments (Ek, Carl, Congressional Research Service, 87-183ENR, March 4, 1987). We agree that encouraging overproduction in times of massive surpluses is an inane policy and the financial incentive to retire poor land while intensively farming the remainder should be stopped. However, the goal could be accomplished simply by stating set-asides and other production controls in terms of bushels, hundredweight, etc. instead of acres. This would curb over-production incentives without leaving the government in a position of paying farmers huge sums not to produce -- an idea which is repugnant to farmers and taxpayers alike.

The FSA is a combination of all of the above proposals, all of which fall short of addressing the farmers' real problems. There has been an undeniable trading off of genuine farm income improvements for recapturing the 30% of our export sales which the U.S. has lost since 1981 (Lesher, p. i). Prices have been drastically lowered -- often below the cost of production. Farmers who never participated in voluntary government programs before realized that under the FSA it would be economic suicide not to sign up and collect their share of deficiency payments instituted to ease the impact of lower prices. As advocates of other worthy programs are quick to point out in these times of budget restraint, deficiency payments are costing more than twice the original cost projections. Loopholes in payment targeting have made millionaires of a few farm entities, while leaving many with little benefit (The U.S. Budget in Brief, Office of Management and Budget, Fiscal Year 1988, p. 22). In 1986, the first year of operation for the FSA, the Farm Credit Service (FCS) reported a total loss of $1.9 billion as more and more of its borrowers found their income insufficient to pay their debts (Farm Credit Administration, Agricultural Credit Outlook 1987, p. 43).

All of this took place in the name of recapturing export markets -- that is, taking existing markets away from other countries. The FSA provided a variety of tools for USDA to use, ranging from the Export Enhancement Program to the Targeted Export Assistance Program to beef exports required by the Dairy Termination Program. According to the statement of Daniel Amstutz before the Subcommittee on Government Information, Justice and Agriculture of the Committee on Government Operations (May 20, 1987), all of these special export subsidies are working -- 1987 should produce the first realistic increase in the volume of agricultural commodity exports in five years. At the end of last month, the Foreign Agriculture Service bore out the Under Secretary's prediction in a report showing that export volume for the month of March, 1987 had increased 23% from March, 1986. Mr. Chairman, the same report showed an increase in export value of just under 1%. Add the tremendous domestic cost of this policy in economic and social terms, and the damage to farmers around the world, and it is painfully clear that this course cannot continue.

The European Economic Community (EC) and most industrialized nations of the world are major competitors in agricultural export sales. India, with a population equal to both the U.S. and Russia, is now nearly self-sufficient in food production. China, with one-fourth of the world population, is rapidly moving to self-sufficiency and, in some cases, is already exporting farm products. How long can we remain blind to the fact that a world market to solve our farm problems simply does not and will not exist? These are the true market signals we should respond to.

It is also important to look at the United States' track record in terms of creating new markets by improving the real demand of less developed countries who would buy from us if they had the money. By 1983, P.L. 480 program alumni accounted for 7 of the top 10 cash customers for U.S. farm products (Japan, Mexico, South Korea, West Germany, Taiwan, Spain and Egypt). Yet, by FY 1988 we have not learned the lesson shown clearly in 1983 -- P.L. 480 programs, a proven tool in developing new food and fiber customers for the U.S., are allocated a meager .005% of GNP for Fiscal Year 1988 by the Office of Management and Budget (The United States Budget in Brief, OMB, pp. 39, 54).

While we challenge the justification for abandoning fifty years of farm programs for the sake of "recovering" export markets from our competitors, we are far more troubled by the underlying assumptions implicit in all the alternatives I've discussed so far. Those assumptions are first that America can safely afford to lose thousands of family farmers, second that those farmers who remain after "the shakeout" will find themselves automatically in better financial condition, and third that reducing the number of farmers will automatically reduce production or enhance our productive efficiency. History has proven that these assumptions are not true. The loss of family farmers, particularly in areas where alternative employment is not readily available, is devastating to local communities. One rural business is lost for every six farm failures. School systems suffer as their tax bases erode. Church support declines. Further, those farmers remaining are faced with declining land values and required increases in production that keep their prices down.

Getting rid of family farmers does not reduce overproduction, it merely concentrates it. When a dairyman sells out, his herd is purchased by other dairymen who keep the cows producing milk. When a grain farmer sells out, his acreage is purchased by another farmer or held by the government for eventual resale and future production. Over the past five years, the number of farmers has decreased dramatically, while production and surpluses have increased. The farmers who are left have been servicing their debts with credit instead of income, or else they are older farmers whose mortgages are paid off. Mr. Chairman, it's time that we recognize and admit these failings and say, "enough is enough."

It's time for the farmers and ranchers of this country, whose livelihoods depend on sound agricultural policies and programs to have a voice. Even if one feels that mandatory production controls in exchange for better income is an impractical idea, one still should support nationwide commodity referenda, since only then will we know what the majority of producers truly want. Congress hears continuously from various interest groups all claiming to speak for the majority of producers. Mr. Chairman, there is only one way to know for sure, and that is to ask the producers themselves. We feel that last summer's non-binding wheat poll carried a message, from at least one sector of the agricultural economy, that it's time to change policies that leave farmers broke while giant grain traders post record profits. An attractive feature of the Harkin bill is that it provides for periodic review through additional referenda down the road.

The ideas embodied in the Harkin bill represent a fundamental shift of attitude from producing all we possibly can, to producing all we possibly can use. This is an essential first step in returning to a balance between supply and demand. It will allow farmers to do collectively that which they cannot do individually -- adjust supply to meet demand. The role of the government should be first to facilitate demand by domestic food and nutrition programs, multilateral negotiation, and economic development, and second to facilitate the market by forecasting what the demand will be. Only when farmers and ranchers can derive their prices from the marketplace, based on the cost of production plus a reasonable profit, can the government truly reduce its involvement in the business of production agriculture. In other words, for the government to get out of the business, agriculture nationwide must begin to function like a business.

The need for agriculture to function like a business is put in perspective when one views the impact of agriculture on the rest of the economy. Agriculture is the Nation's biggest industry. An average of 20% of American jobs are related to the food industry (1986 Fact Book of U.S. Agriculture, USDA #1063, p. 1, hereafter Fact Book). Many more jobs are held in related industries such as transportation, equipment, and inputs.

Agricultural products also have traditionally held up their share of total U.S. exports. Only since 1981 have agricultural exports plummeted (Lesher, p.4). We agree with Lesher and the report of the National Center for Food and Agricultural Policy located in Resources for the Future (NCFAP, unpaginated study) that exports of agricultural commodities are important for economic and humanitarian reasons. Where we disagree is in their predictions that the approach to foreign competition suggested in the Harkin bill will lead to devastating market losses, retaliation, and huge government outlays (Lesher, pp. 14 - 16, NCFAP, Wharton Econometrics, Inc. "An Economic Analysis of Alternative Agricultural Policies," p. 3.24, hereafter Wharton).

Can these people honestly believe that foreign competitors will find a proposal calling for holding imports to current levels and negotiating in hopes of allowing more countries to end their expensive subsidies more offensive and more likely to induce retaliation than our current programs which call for undercutting world market prices with the deliberate, pronounced intent of stealing markets away from those countries? With all due respect for the advanced study of economics, Mr. Chairman, who are they kidding? Can these people honestly believe that the U.S. is helplessly reacting to world prices rather than setting them? Foreign leaders recognize that this agricultural subsidy war to keep market prices low is a poker game whose stakes keep getting higher, and whose ante comes directly from the pockets of taxpayers. As recently as last month, Secretary Lyng returned from a meeting with the Organization for Economic Cooperation and Development (OECD) to proudly announce the recognition of OECD leaders that market-clearing agricultural subsidies have to end.

These same critics of the Harkin bill also claim that there is no historical precedent for the idea that countries can negotiate a long-term agreement and live by it. Mr. Chairman, there is historical precedent for multilateral agreements in agricultural commodities. From the International Wheat Agreements right up to the Uruguay round of the General Agreement on Tariffs and Trade (GATT), nations have worked together to improve the trade environment. These efforts have met with varying degrees of success, but they deserve more than summary dismissal. Further, I would suggest that the best example the world has of the impact on agricultural trade when nations work together is the EC. This multilateral effort has spanned nearly three decades and has worked well enough that it has continued to add countries throughout its history (Friend, Reed E. and Trostle, Ronald "Agriculture in Western Europe," U.S. Agriculture in a Global Economy, 1985 Yearbook of Agriculture, USDA, p.81 - 99, hereafter Friend). It is partially because the EC has worked so well in making Western Europe a major factor that the U.S. is facing its current agricultural trade problems.

What is truly unprecedented is the amount of tax dollars nations are spending today in attempts to out-subsidize each other's exports as an alternative to realistic value and market return for agricultural production. It's time to stop this destructive course of action and return to the real issue -- restoring profitability to agriculture.

Mr. Chairman, the U.S. must restore profitability to American agriculture, or we will be negotiating with foreign countries not to buy our products, but to sell us theirs so our people can eat. There is no more basic protection to national security than the ability of a nation to feed its people. If no profit is to be made producing in the U.S., then food and fiber production will eventually move somewhere else. Comparative advantage is a pet phrase of many economists and basically it means that things should be allowed to happen where they can produce the greatest return. In the case of food production, political and social considerations must be given greater weight than economic comparative advantage. In a frenzy to increase exports, we cannot allow low price, cheap food policies to drive our productive capacity elsewhere. Economic and social considerations must be weighed side by side. Basing a decision purely on one or the other is like building a brick wall with no mortar -- at the first sign of a storm, it will collapse. It is already cheaper for a farmer to buy feed corn from someone or somewhere else than it is to grow it himself. It is already cheaper for many foreign nations to buy our corn at Export Enhancement Program (EEP) prices than it is to develop their agricultural economies by growing it for themselves. And cheap grain prices contribute to keeping livestock prices down.

The Harkin bill would restore profitability to agriculture, literally from the ground up. Higher prices for farm products coupled with lower input costs due to decreased production will obviously result in more net income for farmers. And farmers spend their income locally, leading to restored profitability in rural America and in non-farm industries. Mr. Chairman, I ask for a healthy agriculture not just for farmers, but for the many industries who buy and sell, to and from agriculture. The United Auto Workers union understands that when farmers can't afford to buy tractors, their people lose jobs (see App. B, "Targeted for Extinction"). The AFL-CIO understands that farmers and workers do have common concerns (see appendix C, "Farmers and Workers, Some Common Concerns").

These organizations have joined with NFU, the National Farmers Organization, the American Agriculture Movement, Women Involved in Farm Economics, the National Council of Churches, the National Council of Senior Citizens, the Central Conference of American Rabbis, the Presbyterian Church, the Union of American Hebrew Congregations, and the National Consumers League to form the Rural/Urban Action Campaign (R/UAC). Our current goal is to restore profitability to agriculture for everyone's benefit, whether by the Harkin bill or by some better alternative yet to be proposed. Our combined memberships total more than 70 million Americans who are concerned about the effects of present agricultural policies.

Improving farm income will keep farmers in business. To the local suppliers of inputs and equipment, this means they will continue to have customers. Yes, production controls would have some impact on the amount of input and equipment sales, but the more enlightened local suppliers understand that having lower sales is better than having sales with no payment or no sales to farmers. When your customers are going out of business, surely you are next. Just ask any rural banker.

Improving farm income will also allow farmers to catch up on debt payments -- whether to suppliers, mortgage holders, or service providers. More debt will never serve as a substitute for more income.

The current agricultural debt situation is two distinct problems. We need to chart a course that will ensure the availability of credit over the long term at competitive interest rates, and we need to restructure existing debt to more accurately reflect the fair market value of agriculture's collateral. The Harkin bill addresses both of these needs.

While agricultural credit isn't within the purview of this sub-committee, I would like to briefly comment on the debt situation faced by American farmers and ranchers. As you know, total agricultural debt has declined recently (1986 Agricultural Chartbook, USDA Agriculture Handbook #663, p. 14, chart #30, hereafter Chartbook). But, Mr. Chairman, when one reviews the liquidations, foreclosures, voluntary conveyances and bankruptcies that have occured, one can see why total debt has declined and the damage that has been done. Those who still hold debt tend to be mid-sized family farmers -- too big for off-farm jobs (assuming they're available) and too small to have successfully farmed the Internal Revenue Code or the Commodity Credit Corporation (Chartbook, p. 9, chart #13). And these people are seeing their debt to asset ratios increase as asset values continue to decrease (Chartbook, p. 5, chart E). Spending nearly $26 billion on 1986 deficiency payments may have muted the clamor temporarily, but make no mistake -- the debt problem has not gone away.

The last area of impact I'll discuss in relation to the Harkin bill is the effect on consumers, most of whom are taxpayers. The public perception of farmers and ranchers is a two-edged sword. On the one side, taxpayers see record federal outlays for farm programs and cases of a few individual farm operations getting rich off the commodity programs. On the other side, consumers have seen a steady increase in food prices, even as they hear case after case of farm failure due to poor commodity prices.

Even with increases in prices, Americans still spend only about 15% of their disposable income on food, compared with 37.9% in Ireland, 17.6% in the Netherlands, 27.7% in Switzerland and 30% among industrial workers in the Soviet Union (Friend, p. 95, Cook, Edward and Cummings, Robert, "Agriculture in Eastern Europe and the USSR," Agriculture in a Global Economy, 1985 Yearbook of Agriculture, USDA, p. 109).

Over the same ten year period, the farm-retail price spread (the difference between what the farmer gets and what the consumer pays) has increased every year (Fact Book, p. 36). While the percentage of farm value in retail prices varied among commodities, as an overall average farmers received only about 25 cents of every consumer food dollar (Chartbook, p. 54, chart #147).

Members of the public who are not aware of all this have every right to be confused. Members of the public who are aware of all this have said they are willing to pay somewhat higher food prices if they could be sure that any increase was actually received by farmers.

There is no doubt that the Harkin bill, or any mandatory supply control measure would raise consumer prices, although there is considerable dispute as to the amount. The Harkin bill's sponsors project an increase in food prices of 5% over the FSA, which translates into an increase in the overall Consumer Price Index (CPI) of about 1%. This size of an increase in the grocery store means an additional one cent per box of cornflakes, and two cents per loaf of bread. The NCFAP, on the other hand, projects an increase of 8% by 1991 over the FSA, and 14% by 1995. But, one must keep in mind that retail food store prices rose 80.3% over the last ten years without mandatory production controls (Factbook, p. 35).

What we're really talking about, Mr. Chairman, is that once we make the decision that we want family farmers in the U.S., we will shift the burden of keeping them here from taxpayers to consumers. This will spread the cost among a larger group resulting in a lower per capita impact; everyone eats, but not everyone pays taxes. The sponsors of the Harkin bill recognize that not every consumer is in a position to absorb even a 5% increase in food prices, so the bill calls for increased benefits under the various food and nutrition assistance programs. One should also note that benefits from Social Security, Food Stamps, etc., are tied to the CPI. Again, Mr. Chairman, the National Consumers League felt that improving farm prices was an important enough goal for the organization to join us in R/UAC.

Mr. Chairman, the Harkin bill, like any other, still has room for improvement. We have pledged our help to the sponsors in any way possible, yet we intend to keep our eyes open to new ideas that may come forth. We have not seen any new ideas or better alternatives from those who criticize the Harkin bill. Lesher and Associates was commissioned to a study by the Agricultural Policy Working Group (APWG). The APWG is comprised of grain traders, chemical companies, and food processors. These groups do not want to see reduced commodity surpluses and higher farm prices. It would reduce their profits. The Wharton Econometrics report was commissioned by the Grain Rail Group. The companies want to see more grain transported. It would add to their profits. NCFAP, which incidently receives much of its funding from the Kellogg Foundation, begins its study with an explanation that the staff had "supplemented the econometric results (of FAPRI) with qualitative economic analyses." These economic studies do not see the survival of the family farm as an objective. To NFU, it is our primary objective. We cannot and will not compromise or abandon that objective.

Mr. Chairman, thank you for the opportunity to present our views. I would be happy to answer any questions at this time.

Appendix A, above referred to, is retained in the committee's file.

Senator **Melcher**. Cy, as I have asked the others, what do you recommend be done with the surplus wheat and corn?

Mr. **Carpenter**. Mr. Chairman, I think that is sort of a two part question. First, I think that which is excessive must be insulated, so that it is not a continuing crushing burden and is the responsibility of our Government whether to use it then in export enhancement or for humanitarian reasons.

There are a number of possible uses and the alternatives such as ethanol are good, but they are over an extended period of time.

We need to direct much of our agricultural research to better utilization instead of to production. Commercial use of corn in plastics and other areas has great capability, but that takes time.

In the meantime we are faced with a current situation. That which is excessive needs to be insulated where we can use it effectively.

We need to do sc where we need to use it in increasing our attractiveness in export or whatever. That needs consideration in a variety of fronts.

As a small example of the inadequacy in that last respect, our best markets today were developed years ago, as you know very well, Senator, using Public Law 480 and similar programs.

At the present time, if my calculation is correct, we are committing five-thousandths of 1 percent of the budget to Pubic Law 480 as a market development tool.

Certainly that is inadequate in the face of the fact that the only real market development is in the developing nations.

All of the industrial nations, almost without exception, Japan and one or two others, are exporters. India, with a population of the United States and Russia combined, is now nearly self-sufficient. China, with one-quarter of the world's population is nearly self-sufficient and in some cases exporting.

Those are the market signals that we need to read. And where we can use this excess, insulate it from our present problem and use it to develop conditions on undeveloped countries in harmony with their government.

There is great potential for appropriate and profitable use of that product.

Senator **Melcher**. To recap, then, export enhancement and other types of sales, the broader use of Public Law 480 and other types of donations and market building programs abroad, some for ethanol production and a longer range pursuit of the utilizing of agriculture commodities for purposes that we do not at present use them for.

Mr. **Carpenter**. I think you are correct, Senator. I think we need to recognize that it is excessive and that it will take time to use it up or wear it off and that must not be a continuing and additional burden to farmers.

We will stand our share of that cost, but we cannot carry the cost alone.

Senator **Melcher**. Yes, I understand. Thank you very much, Cy.

[Material submitted by Mr. Carpenter for the record is retained in the subcommittee's file: Appendix A, "New Direction for World Agriculture—a Future for Family Farmers," 1987 Policy of National Farmers Union, adopted by delegates to the 85th anniversary convention, Fort Worth, TX, March 1-4, 1987; "Targeted for Extinction: Family Farms," UAW Education Department, Solidarity House, 8000 East Jefferson, Detroit, MI 48214, published February 1986; and "Farmers and Workers—Some Common Concerns," this brochure contains the statement by the AFL-CIO Executive Council on Farm Policy, May 7, 1985, Washington, DC.]

Senator MELCHER. The next witness is Mark Nestlen, legislative representative for the National Grange.

STATEMENT OF MARK C. NESTLEN, LEGISLATIVE REPRESENTATIVE, THE NATIONAL GRANGE

Mr. NESTLEN. Thank you, Mr. Chairman. I have submitted a prepared statement for the record and I will summarize my statement. I know we have a noon deadline today.

For the record, I am Mark Nestlen, the legislative representative for the National Grange. Since our beginning in 1867, we have been deeply involved with agricultural policy and the socioeconomic effects on rural America.

For your information, today, we represent over 365,000 members in 42 States.

On behalf of the National Grange, I would like to thank you and commend you, Mr. Chairman for calling this hearing today on the state of the agricultural economy in light of the 1985 farm bill.

These types of hearings give us the opportunity to continue the debate of agricultural policy so that we all can make more intelligent decisions in the future on what our commodity programs should look like.

First of all, Mr. Chairman, let me reiterate the point that the National Grange supported passage of and continues to support the programs of the Food Security Act of 1985.

We contend it is meeting most of its objectives. As we look back at what the primary concern was in 1985, it was the historical market share loss.

Most parties concerned agreed on this, from the administration to Congress to the majority of the players in the private sector.

This concern was reflected in the farm bill in a number of ways by lowering the nonrecourse loan rates and indexing it to the future world price, providing export incentives, developing new export credit programs and a variety of other ways.

We believe seriously that these program goals have not changed at this point.

As you have heard this morning, farmers and their organizations have made their judgment on whether or not the 1985 farm bill is providing the relief that was sought in the legislation. As we know, that question is answered differently by each organization.

We find that too often agricultural policy is judged in the short term on its contribution to income enhancement. In that regard, the Food Security Act of 1985 has not been real successful in improving net farm income from the marketplace.

It is true that income in 1986 was at a record level and it is projected to remain stable or possibly increase in 1987. But a third of that income is from Government outlays which is increasing the cost of the Treasury.

When we assess this act, it is certainly unfair to narrow our scope solely to that feature, but instead we have to look at the overall objectives. And in that broader sense, we have to see that U.S. agriculture is once again competitive in world markets. The volume of total agricultural exports is expected to increase in fiscal year 1987. That will be the first time in 7 years that that will happen.

Moreover our domestic demand is increased. Poultry and livestock profitability are up, which increases the need for feed grains and protein meal products.

Domestic use of rice and cotton is also booming.

According to the Department, by the end of 1987-88, stocks are expected to fall for all major crops, and Government purchases of surplus dairy products will be halved, outstanding farm debt is expected to fall and net farm worth is likely to rise after 6 straight years of decline.

The act has produced program costs that are far above the best estimates of the administration or Congress. These costs are due in part to sluggish world demand in the face of global surplus that is being subsidized on to the world markets.

However, we believe that it was the intent of the 99th Congress in passing the act to become competitive on world markets and to challenge the unfair trade practices of our competitors that resulted in this reduction of our U.S. market shares.

I believe we knew they would be costly. We did not know that it would be as costly as it is. We believe it is going to be worth the price.

As I said earlier today, we did not get into this overnight. We are not going to get out of it overnight either.

We also understand that a large deficit has a negative effect on our sector. For that reason, we feel if we can look at the programs, if we can make corrections to the programs that will lower the cost, but leave us competitive on a world market and will keep the programs as effective as they are today, those matters should be pursued.

In our judgment, one of the most positive aspects of the Food Security Act of 1985 is that we gained the attention of our competitors.

Since the enactment and implementation of the act's provisions, we have found our major competitors to be more willing to discuss and resolve trade disputes in agriculture.

The successful conclusion of last year's pre-GATT negotiations and the recent Venice Summit would not have been possible if it was not for the strong stance that the United States took in that farm bill.

We are a long ways from reaching our objectives. I am not sure that the year 2000 is even achievable. But because of the actions we have taken is why we are at today—all direct and indirect export subsidy programs of contractual parties are going to be on the negotiating table as will all barriers to market areas.

This is a first of GATT negotiations and if it is successful, we seriously believe that U.S. agriculture will be the beneficiary of a more open world trading system.

In light of the increased importance of exports to U.S. farmers, the highly competitive nature of international marketing, the need to retain economic stability for farmers, the National Grange believes that a targeted marketing loan designed to assist the moderately sized commercial family farmer is the program alternative which should be pursued in the future.

A scaled down version of the marketing loan is contained in the 1985 farm bill for cotton, rice and honey. The program has been extremely successful for cotton and rice and those producers and people related to those industries are well satisfied with the marketing loan.

On page 5 of my prepared statement is a brief outline of the National Grange's proposal for a pure marketing loan. Mr. Chairman, I will not take the time to go into that point by point.

But it is a market-oriented program that will stabilize farm income at its current levels to the farmers and will allow our products to become more competitive on the world market than they are currently.

A sidelight that is not in the prepared statement that I feel I should mention after listening this morning is the National Grange, as you will refer back to last Thursday's submitted statement, is opposed to mandatory production controls.

We do not have a single grain elevator as a member. We represent producers, grassroots developed policy, and has been since the beginning. And we do oppose the Harkin-Gephardt bill.

Touching briefly on dairy, another subject of the subcommittee's jurisdiction, we have been generally pleased with the success of the dairy provisions of the 1985 farm bill. Currently, total milk production is lower than production was this time last year. Furthermore, milk cow numbers as of January 1 were down 630,000 head due to the Dairy Termination Program. More importantly is that the ratio of replacement heifers to milk cows has dropped 3 percent since January 1985 to June 1987—44.1 percent January 1, 1985, to 41.1 percent June 11, 1987. While this still leaves us plenty of room to expand production if we need to, this is a positive signal that non-DTP producers are not going to be able to expand their production at higher levels while we are trying to decrease the amount of milk that is produced.

Touching on another subject that is of major concern at this point in time is fiscal responsibility. And we understand that you, as lawmakers, have to scrutinize programs very carefully in this time of financial constraints.

As I said earlier, we strongly support deficit reduction. We believe it will help in features of agriculture. But at the same time we feel, as we look over the past few years, agriculture has taken an unfair reduction compared to other features of the budget.

We simply say that agriculture has to be funded at levels that allow our programs to operate and those relating agencies to operate efficiently and effectively.

I would encourage you to look at those aspects very carefully. The Grange will be more than happy to work with your subcommittee, Senator, in setting those hard choice priorities.

I would once again like to thank you on behalf of the National Grange and the National Master, Mr. Anderson, would have liked to have been here today, but is just returning from a 3-week road trip through the Rocky Mountains, where, in fact, he was in the State of Montana, and was not quite ready to come up today.

So, I would be happy to answer any questions you may have.

[The prepared statement of the National Grange presented by Mark C. Nestlen follows:]

STATEMENT OF THE NATIONAL GRANGE
PRESENTED BY
MARK C. NESTLEN
LEGISLATIVE REPRESENTATIVE

BEFORE THE
AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES SUBCOMMITTEE
OF THE
SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE
UNITED STATES SENATE

JUNE 23, 1987

RE: THE STATE OF THE AGRICULTURAL ECONOMY IN LIGHT OF THE FOOD SECURITY ACT OF 1985

Thank you, Mr. Chairman, members of the Subcommittee, I am Mark C. Nestlen, legislative representative of the National Grange with headquarters at 1616 "H" St., N.W., Washington, D.C. The Grange is a general farm organization, representing approximately 365,000 members in 42 states. Since its beginning in 1867, the Grange has been deeply involved in agricultural policy and its impact on the socioeconomic conditions in rural America.

The National Grange commends you, Mr. Chairman, for holding this hearing today on the state of the American agricultural economy. We appreciate the invitation to appear before your Subcommittee to present our views on the general agricultural situation.

Any assessment of the present agricultural situation will be done in the context of the Food Security Act of 1985. Farmers and their organizations have already made judgments on whether or not the farm bill passed in 1985 is fulfilling the objectives sought in the legislation. The answer to that question, as you will hear, is different for each organization. The success of any agricultural policy is judged in the short-term on its contribution to improving farm income. In that regard, the Food Security Act has not been successful in improving farm income from the market place. It is true that net farm income hit a record level of $49 billion in 1986, 11 percent above the previous record, and projections for 1987 range from $48 to $52 billion. However, government payments account for one-third of cash income, causing record government outlays. But when assessing the Act, it is unfair to narrowly focus on this feature rather than its overall objectives.

U.S. agriculture is once again competitive in world markets. The volume of total agricultural exports is expected to rise in FY 1987 for the first time in seven years. Moreover, domestic demand has increased as well. Livestock and poultry profitability is up, boosting feed grain and protein meal demand. Domestic use of rice and cotton is also booming. The expected use of major crops is projected to increase for all major crops from 1985/86 to 1987/88. Wheat is up 12 percent, corn is up 15 percent, rice is up 23 percent, cotton is up 56 percent, and soybeans are up 1 percent. By the end of 1987/88, stocks are expected to fall for all major crops, and government purchases of surplus dairy products have been halved. According to the Department of Agriculture, for 1987, outstanding farm debt is expected to be 22 percent below the 1982 peak and farm net worth is likely to rise after 6 straight years of decline.

Prior to the passage of the 1985 Farm Bill, the primary concern of agriculture, the Administration and Congress was the rapid loss of our historic export market shares. This concern was reflected in the Act in several ways. First, it was almost universally accepted that our export commodities must be price competitive in world markets, which was accomplished by lowering the non-recourse loan rate and by indexing it in the future to the world market price. In some commodities, a modified marketing loan program was put in place, plus the authority to use export marketing certificates was provided. Secondly, the Act contained the strongest trade section of any farm bill passed by Congress. The section contained a wide range of export enhancement authority to be used in meeting unfair trade practices of our competitors. In addition, it provided for new export credit programs, plus increasing funds for ongoing export market development. In this regard, the Food Security Act of 1985 has partially met its objectives. Exports have increased for some commodities as the marketing programs and competitive prices were put in place. We have not turned exports completely around but, I believe, in most cases, the Act is functioning as planned. In markets where there is a demand, U.S. farmers are gaining back an increased share of those markets. Of course, there are exceptions and the causes of these exceptions may well be beyond the scope of any farm bill. The final report of the National Commission on Agriculture Trade and Export Policy, established by Congress in August 1984, contains many recommendations that should be addressed in this Congress in an attempt to further improve our agricultural export posture.

In an effort to maintain farm income somewhere near where it was prior to the lowering of support prices, Congress agreed to the freezing of target prices at the 1985 level for 1986 and 1987, with a phase down of target prices in the remaining years of the Act. This was done in an effort to cushion the effect on farm income during the transition years. Under the current program structure, target prices cannot be reduced faster than called for in the '85 Act as proposed by the President's Fiscal Year 1988 budget.

The Food Security Act of 1985 has resulted in costs exceeding the best estimates of the Administration and Congress. However, the increased costs are caused, in part, by the sluggish world demand in face of global surplus production that is being subsidized on to world markets. But, I believe, that it was the intent of Congress in passing the Act to become competitive on world markets and to challenge the unfair trade practices of our competitors that has resulted in U.S. farmers losing a large part of their world market shares. I believe we knew it would be costly but we also believe it will be worth the price. We in agriculture realize that a large national deficit has a negative effect on our sector, therefore, if there are ways to lower the government's cost while maintaining our competitiveness and effectiveness of the programs, they should be pursued.

In our judgment, one of the most positive results of the Food Security Act of 1985 is that we gained the attention of our competitors. Since the enactment and implementation of the Act's provisions, we have found our major competitors more willing to discuss and resolve trade disputes in agriculture. We got their attention. The successful conclusion of the ministerial meeting of the General Agreement on Tariffs and Trade (GATT) held in Punta del Este, Uruguay last year may not have been possible without the aggressive trade stance that was taken by the United States under the authority of the Food Security Act of 1985. Nor do we believe that agriculture would have been placed on the Venice Summit agenda without the United States' strong stance. We are a long way from reaching our objectives in the forthcoming "Uruguay Round" of multilateral trade negotiations, but because of the actions that were taken by the United States through the authority provided for in the Food Security Act of 1985, all direct and indirect export subsidy programs of contractual parties will be on the negotiating table as will all barriers to market areas. This is a first for GATT negotiations and if the "Uruguay Round" is successful, United States agriculture will be the beneficiary of a more open world trading system in agriculture.

Mr. Chairman, the National Grange continues to support the programs of the 1985 Farm Bill. We supported the passage of the Act and contend that it is meeting most of its objectives. However, if there are ways to improve the law and reduce the cost to the Treasury, it should be considered. That is why these types of hearings are so important. The opportunity to continue agricultural policy debate will allow all of us to make more informed decisions, approaching the commodity programs with an open mind when considering the options available.

With the above in mind, the National Grange has been developing an alternative for future commodity programs. The marketing loan is a new concept for the commodity loan program by which farmers who place crops under loan in the Commodity Credit Corporation (CCC) would repay their loan at the original loan level or at a level determined by a set formula of domestic or world market prices, whichever is lower. The other difference between a "pure" marketing loan and the regular loan program is that a "pure" marketing loan is a recourse loan that must be paid back whereas a regular loan is a non-recourse loan whereby the farmer can repay the loan by abandoning the crop to the CCC as full payment.

There are many benefits of the marketing loan program that appeal to farmers, export interests and the government:

- The formula would allow U.S. commodities to be competitive on the world market.
- The repayment formula will maintain an adequate income support for producers.
- A marketing loan will allow the market to clear by eliminating the market-interferring aspects of the current program.
- It will reduce the need for supply management programs, but when one is necessary, it takes away the incentive for our competitors to expand their production because we will remain price-competitive, encouraging our competitors to share in our efforts to adjust production when surplus exists.
- The marketing loan will avoid government programs of storing surplus commodities which become costly to store and which may ultimately reduce prices.

A scaled-down version of the marketing loan is contained in the '85 Farm Bill for cotton, rice and honey (also for wheat and feed grains at the discretion of the Secretary). The program has been extremely successful for cotton and rice and those producers and people related to those industries are well satisfied with the marketing loan. Cotton exports are projected to reach 7 million bales for this crop year. As of September 1986, U.S. cotton export sales commitments were already 4.7 million bales, which is almost 2½ times the total exports during the 1985 crop year. According to Representative Jerry Huckaby, Chairman of the House Agriculture Subcommittee on Cotton, Rice and Sugar, acreage set-aside for cotton next year may be zero percent due to the program, and that cotton today is the only program commodity selling above the loan rate. These impressive sales are the response by our overseas customers to U.S. cotton prices that are on par with world prices for the first time in nearly 2 years. Rice is experiencing similar successes, with exports up 40 percent from last year.

The cotton marketing loan program has also forced our competitors to adjust their supply. Statistics show that the acreage adjustment process abroad has already commenced. Chinese acreage was down 26 percent in 1985 and Southern Hemisphere plantings were off 11 percent. Although the figures on 1986 acreage are preliminary, China is thought to be down another 5 percent and Australia by another 25 percent.

This new cotton program is also responsible for the change that has occurred in stocks held by the Commodity Credit Corporation. Since the sale of some 800,000 bales on January 6, 1987, the CCC does not have a single bale of forfeited cotton. There is no costly surplus of cotton today, and there is little reason to expect any forfeitures in the future.

It appears as though the cotton program has been instrumental in increasing the world cotton price. As calculated by the USDA, the world price has doubled since July of 1986. While it is risky to project the future price, the industry believes that the price level will remain above the 1987 loan rate of 44 cents per pound for base quality upland cotton (as of 6/4/87, the adjusted world price was 67.05 cents per pound). If this speculation is accurate, there will not be any cost to the U.S. Treasury under the cotton marketing loan program.

Mr. Chairman, the National Grange realizes that there is a difference between commodities, but we believe that the program should be made applicable to wheat, feed grains, and soybeans and that it can be as effective. In fact, it may even be more effective if it is a "pure" marketing loan.

The Grange has a concern with simply implementing the marketing loan for wheat or feed grains which the '85 Farm Bill, at the Secretary's discretion, allows. That program has a 70 percent floor, meaning the producer must pay back the loan at no less than 70 percent of the loan rate. Moreover, it is a non-recourse loan which means when the market falls below the 70 percent level, the producer will have an economic incentive to forfeit the commodity to the CCC, therefore, building up surplus stocks. This may not allow our prices to move to competitive levels and leaves a price floor which our competitors can undercut. In other words, the government is still influencing the price in the market place. A "pure" marketing loan allows the price to fluctuate to world levels without government intervention. One reason exports have not increased more dramatically under the current program is due to price certainty. The U.S. has told its customers what commodity prices will be in six months, twelve months, etc. The "pure" marketing loan removes the certainty and forces both customers and competitors to buy and sell subject to the market.

There are too many ramifications of the marketing loan program to go into detail today. But one of the most important features of the marketing loan program is that our export prices would become competitive on the world market without the necessity of using any additional export enhancement programs.

The one negative feature of the program is the potential cost, particularly if our competition chooses to subsidize heavily or if surpluses drive world prices to extremely low levels. This is why the National Grange calls for a "pure" recourse marketing loan rather than a non-recourse marketing loan coupled with target prices and deficiency payments. We also believe that the benefits of this program should be targeted towards the small- and medium-size family farmers. One method of targeting is to place a limitation on the amount of a crop which could be placed under the marketing loan program. Additional crops would then be grown subject to market forces.

Regardless of the type of loan program, we must target the payments to the family farm. The National Grange has maintained this position since 1978. We believe the $50,000 payment limitation per farmer must be strictly enforced. To preserve agriculture and rural America, we must take those targeting actions into consideration.

In light of the increasing importance of exports to U.S. farmers, the highly competitive nature of international marketing, and the need to retain economic support for farmers, the National Grange believes that a targeted marketing loan designed to assist moderate-sized commercial family farms is the program alternative which should be pursued in the future.

The following is a brief outline of the Grange's marketing loan proposal:

- The loan rate would be set yearly by the Secretary at the national average cost of production.
- Target prices would be eliminated.
- The producer would pay back the loan at the lower of:
  1) the original loan rate, or
  2) the county monthly average market price.
- A limit would be placed as to the total aggregate amount of commodities that could be placed under the marketing loan, and a payment limitation would be applied to government payments.
- Acreage Reduction Programs would be phased out.
- Commodity certificates are eliminated.
- Export Enhancement Programs are eliminated.

The National Grange has been generally pleased with the success of the dairy provisions of the Food Security Act of 1985 in reducing surpluses and government purchases of dairy products. Currently, total milk production is lower than production was for the same time last year.

Milk cow numbers January 1, 1987 were 10,547,000, down 630,000 for the year due to the Dairy Termination Program. More importantly is that the ratio of replacement heifers to milk cows has decreased from 44.1 percent (1/1/85) to 41.1 percent (6/11/87). While still leaving plenty of capacity by which to expand the herd, a reduction in the replacement cow ratio is a positive sign that non-DTP producers won't increase their production overall during our efforts to decrease it.

Consumption has increased significantly since the creation of the National Dairy Promotion and Research Board in the Dairy and Tobacco Adjustment Act of 1983. Funded by farmer assessments, dairy promotion efforts have helped to increase the total consumption of all major dairy products. Decreased production, higher commercial prices and increased consumption have helped to decrease dairy product purchases by the Commodity Credit Corporation. The USDA estimates that total government purchases of surplus dairy products will drop from a record 16 billion pounds two years ago to about 6 billion pounds this year. Further action by Congress to address the displacement of domestic dairy products from the commercial to the government sector that is caused by the use of imported casein products in imitation dairy products would, in our opinion, further reduce government purchases for 1988 and beyond to levels that are below the 5 billion pounds a year target for support price reductions that were included in the Food Security Act of 1985. Hard pressed dairy farmers, who, for the first time in several years, see the possibility of stable or decreasing production costs, don't deserve to have their support prices reduced because of the importation of subsidized foreign dairy products.

Strong National Grange policy calling for the implementation of any DTP, diversion, or assessment program based on geographic regional differences in production and regional contribution to surplus problems was not included in the final regulations of the DTP, even though Congress granted the Secretary of Agriculture discretionary authority to do so. We still firmly believe that should Congress deem it necessary to revisit dairy programs in the 100th Congress, or should the standby diversion program that is already available to the Secretary become necessary, that any such programs be administered on the basis of placing assessments or reducing production based on geographic regional differences in production and regional contributions to surplus problems.

Last year, the National Grange was also critical of parts of the dairy program that legislated increases in the Class I fluid differential prices in 35 of the 44 federal market orders. We felt that amending the orders through legislation diminished the integrity of the market order process. We were also concerned that higher Class I prices could encourage production increases in some areas while the overall national goal was milk supply reduction.

Our second fear was realized when Masstock International announced plans to build a large multi-thousand head dairy operation in south Georgia, a region that received one of the highest Class I price increases. Masstock's use of low interest state-sponsored Industrial Development Bonds, however, gained most of the attention in the press. As part of the 1986 omnibus trade legislation, the House of Representatives included a Grange-supported amendment that would deny Masstock the right to gain benefits from the Class I pricing in south Georgia if they continued to use IDBs. Presented with the prospect of having to choose between using IDBs and gaining the benefits of Class I pricing if the trade bill became law, Masstock officials quickly withdrew their IDB financing and redesigned and refinanced its south Georgia operation. Clearly, the lucrative Class I prices, mandated in the Food Security Act, were a major factor in that decision.

In light of the fiscal constraints placed on Congress, we realize the difficult burden on lawmakers to carefully scrutinize programs. While the National Grange strongly supports a reduction in the federal deficit, we believe that the farm programs and related USDA budgets have taken an unfairly large reduction in recent years compared to other portions of the federal budget. Agriculture must be funded at levels which will allow programs to be successful and agencies to operate. The Grange will be pleased to work with this Committee, Mr. Chairman, in setting the "hard-choice" priorities.

Mr. Chairman, once again, we thank you for the opportunity to share our overall views with this Subcommittee. If you choose, the Grange will be happy to testify at later hearings on particular parts of this testimony, or other programs under this Subcommittee's jurisdiction. I will be happy to respond to any questions the Committee may have.

Senator **Melcher**. I hope he enjoys himself in Montana. I can understand why he is there instead of here. Mark, can you respond on behalf of the National Grange what would you recommend be done with the surplus wheat and corn which is now in CCC hands or in farmer-owned storage.

Mr. **Nestlen**. We have talked about a number of things today, and first of all, I would like to touch on the ethanol situation.

I believe, and I was trying to recall sitting back there, that there still is a provision in the farm bill that can allow the Secretary to make a subsidy of the ethanol production, of giving some in-kind bushels when it is purchased. I think this is a program that definitely the Secretary needs to look at to reduce some of the problem we have with corn.

When we talk about ethanol, there is another point here that I want to make sure we put on the table today and that is another subsidy that ethanol receives that we are highly opposed to because of its effect on rural roads and that is the exemption from the gasoline tax for highway construction. We do not believe that this is a proper usage. It is, first of all, discriminatory between the gasoline and the ethanol and it removes the funding for improvements to our rural roads and bridges which is so important for our farmer-to-market transportation.

We think that is a wrong kind of subsidy for ethanol. Instead we should be using the opportunity we have already in the law to subsidize the producers of ethanol with in-kind bushels. And I think that is something we definitely have to look at.

I think there are a couple of other things. Recently the Senate Agriculture Committee, in the trade bill, expanded the EEP. If that is approved, the use of generic certificates will allow some more of that corn or wheat to move in our foreign markets. I think that is beneficial in two ways. That is going to help reduce some of the surplus, and it is a further negotiating tool that we can use when we go to the table to have there—that we can put on the table to remove the subsidy when we are dealing with, particularly, the Europeans.

Foreign aid was mentioned earlier. I think sometimes in agriculture we forget how important agriculture is in the whole foreign aid picture, particularly, I think, the story is not told well outside of the Beltway, that just how much of foreign aid is agriculture and how important it is.

I think that if we can move some more of these commodities in that foreign aid direction that, again, that will benefit us in a number of ways.

It will reduce the surplus we have. It possibly could lower the cost of foreign aid to the Treasury and is an assistance to those people as well.

There are some other things that are being thrown around that I definitely would not make any comments on at this time, but there is talk about putting it on a barge and sending it out and burning it.

There may be some positives to that. I do not know and we have not looked at that yet.

But there are a number of a things that we can do, I think, to reduce some of this surplus.

Senator **Melcher**. Thank you very much, Mark.

Our last witness is Alice Parker, vice president for Women Involved in Farm Economics.

STATEMENT OF ALICE PARKER, NATIONAL FIRST VICE PRESIDENT, WOMEN INVOLVED IN FARM ECONOMICS

Ms. **Parker**. Good morning, Senator Melcher. Greetings from the Pacific Northwest. I am Alice Parker from Royal City, Washington. I am the national first vice president of Women Involved in Farm Economics [WIFE], who I am representing today.

WIFE, which is better known for Women Involved in Farm Economics, is a general agriculture association representing women who are involved or interested in agriculture. We are a young organization, since we were only founded in 1976. Our membership continues to grow daily and we now have chapters and State associations in 21 States, with our latest State joining, Iowa. We span the Nation all the way from Washington State to Florida and New York. We are policy oriented and represent all commodities. We are a grassroots organization.

My husband and I are irrigated farmers on the Royal Slope, which is part of the Columbia Basin project. We were both born and raised on dryland farms in eastern Colorado and began farming on our own there in 1954.

So, I am one of those grassroots farmers that Senator Leahy was talking about earlier.

In 1965, along with our three children, we moved to Royal City where we developed our current farm into productive irrigated agriculture land. We farm 450 acres and normally grow wheat and corn in rotation with other crops, such as dry edible beans, seed crops, vegetables, alfalfa, and malt barley, which are nonprogram crops. We currently are raising wheat, corn, malt barley and 36 acres of vegetables and melons that we are producing and selling as fresh produce. Our son, Perry, although he is not living or working on the farm, still has an interest in it. He owns part of the 450 acres and comes home and helps with his job as manager and field man of a fertilizer business as time allows. Our two daughters and our grandchildren often come home to the farm to help out when extra help is needed.

I am pleased that you sent a special invitation to WIFE to come here today to testify on the state of agriculture in light of the Food Security Act of 1985.

You can read and hear all kinds of statistics on farm foreclosures and bankruptcies, how farmers' income is either increasing or decreasing, how the farm crises is improving or deteriorating, whether land prices have bottomed out or whether they are still on the downward trend. You hear that only farmers in trouble are those who have overextended themselves and are heavy in debt. The list goes on with stories about the problems in agriculture. Many of these reports that we hear are conflicting.

As a national officer of WIFE, I communicate with some of our members across the country almost daily. I recently attended our midyear national steering committee meeting here in Washington, DC, just 2 weeks ago where 82 women attended from 19 States. Following that group, our group meeting, I attended the National Farm Women's Forum, which included many women from many of the different farm organizations including general and commodity groups.

After talking with this broad spectrum of women, I would like to give you my perspective today as to what the state of agriculture is in general. We are still seeing that we are in a depressed state, although some commodities are seeing some improvement.

There are four commodity groups that feel the provisions in the 1985 farm bill are helping their farm operations remain solvent. They are cotton, rice, sugar, and peanuts.

The wheat, feed grains and soybean producers are not realizing price recoveries that we see in the four commodities that I just mentioned. We continue to see a surplus in these commodities, which are being nothing more than a hammer over our head.

Wheat and feed grain commodities set the base for agriculture in general. Consequently, wheat and feed grain policy often determines the viability of nonprogram crops. An example of this was under the 50/92 provision. When producers were allowed to plant nonprogram crops on conserving use acres, that created surpluses in the nonprogram crops—in those commodities.

In the Columbia Basin we still see stacks of the 1986 alfalfa hay crop. Now, the 1987 crop is being stacked along side. We have just seen the completion of the first cutting of hay and we are seeing the second cutting begin. We saw hay prices drop from $90 to $100 for the 1985 crop to $45 to $60 for the 1986 crop. We are seeing a $60 price range for the new crop. Adding to the dilemma for the hay and the feed grain producer was the Dairy Termination Program. It reduced a market that they had been producing for. Adding also to this dilemma, the dairyman who sold all of his cows still had his land. So, he became a producer of feed and grain for other dairymen, again, cutting into that market.

We saw the dry edible bean producers rally quickly when the 50/92 program gave permission to plant their commodity on conserving use acres. They were successful in getting the provision changed to not include the dry edible beans. They were also told, "where were you when the bill was being written?" Traditionally, nonprogram crop producers have not become involved in the process as they feel the program is not directed toward them.

We are now seeing many of those acres that traditionally produce nonprogram crops, me included, planted more to wheat and feed grains. I have heard both Senators and Representatives say that there will be mandatory controls on producers and they will participate in the farm programs by means of economics. They have accomplished that goal. Up until the last few years my banker was telling me, as an irrigated farmer, I could not afford to participate in the programs. Now they are telling me I must participate. Therefore, it has become a mandatory program. They are telling me that it is risk free and the only sure money that I have to help me cash-flow. Under the current program, I still have difficulty in showing a positive cash-flow position.

The American agriculture producers are being told you must be competitive in the world market. As producers and on a producer level, we are competitive. We have proven that we are efficient and productive. Many factors are involved in pricing us out of the world markets. Just lowering the commodity price at the farm gate level is not going to do the job. Labor costs, transportation costs, interest rates, the value of the dollar, competition with treasuries of foreign governments are all factors that must be addressed if we are to be competitive in world markets.

The complaint of low quality products must be addressed also. As producers, we can and do produce a high quality product, but we lose control of the quality once it leaves our hands. We, the agriculture producers, cannot continue to carry the burden of all of these barriers.

Credit is a continuing problem today. We know that Congress is considering legislation to bail the Farm Credit System out. The answer is simple, let the farmers do the bailing out. If we were receiving a price that would cover production costs, plus a fair return to our investment, then we would be able to service the debts that we have incurred. With the cash-flow problems farmers are now having, we see interest rates increase. We are told that we are high risk. Therefore, they must raise the interest rates to us, which only makes it harder to cash-flow.

We hear the story that farmers have overextended themselves. I know farmers who are put in this category. During the seventies, when the picture of agriculture looked promising, many farmers extended themselves, not because of greed, but because they had sons, daughters, or other young members of their families that wanted to get involved in farming. They purchased additional land at higher interest rates. Now, they find themselves in financial trouble with the continued rise in production costs, coupled with decreased farm prices. Some of my lifetime friends have now lost everything, because they had children growing up at a time when farming looked good and they tried to help them.

Those who say it is mismanagement have not walked in the shoes of those who were trying to help their family members become established in a business that they love and which looked promising at the time. Now, these farmers are being made to feel that they are total failures.

To operate a professional farm efficiently, it takes full-time attention by all those involved. Under current economic conditions, we are seeing off-farm employment necessary to support the family living. This is hurting the efficiency of the farm operation. Many of our WIFE members have taken off-farm jobs. I personally am working at an off-the-farm job for the first time to supplement our living expense. The money that I have been making from my part-time job has only been covering my husband's and my medical insurance. Our medical insurance increased from $247 to $332 per month this year. My part-time job is flexible, but it does affect our efficiency. I am not keeping our farm books up to date nor am I available to help out in the field when the need arises.

When farmers are forced to depend on off-farm jobs to support the family living, then the efficiency drops greatly.

In conclusion, I want to say thank you for inviting WIFE to testify here today. I know that you are as concerned about the future of agriculture in America as I am or you would not be holding this hearing. The United States must maintain its food and fiber producing capabilities. The family farm structure is the best security we have to protect that capability. With all of us working together, I know that we will solve the problems and we will preserve the family farm structure that we have today.

Thank you, and I would be glad to answer any questions you might have.

[The prepared statement of Ms. Parker follows:]

WIFE Women Involved in Farm Economics

"THE STATE OF AGRICULTURE IN LIGHT OF THE 1985 FOOD SECURITY ACT"
HEARING
June 23, 1987
SENATE AGRICULTURE SUBCOMMITTEE
AGRICULTURE PRODUCTION AND STABLILIZATION OF PRICES

TESTIMONY
BY
ALICE PARKER, NATIONAL 1ST VICE PRESIDENT
WOMEN INVOLVED IN FARM ECONOMICS

TESTIMONY by ALICE PARKER

I am Alice Parker from Royal City, Washington. I am the National 1st Vice President of WOMEN INVOLVED IN FARM ECONOMICS (WIFE) who I am representing today.

WIFE is a general agriculture association representing women who are involved or interested in agriculture. We are a young organization since we were only founded in 1976. Our membership continues to grow daily and we now have chapters and state associations in 21 states, our latest state Iowa. We span the nation all the way from Washington State to Florida and New York. We are policy oriented and represent all commodities.

My husband and I are irrigated farmers on the Royal Slope which is a part of the Columbia Basin Project. We were both born and raised on dryland farms in Eastern Colorado and began farming on our own there in 1954. In 1965 along with our 3 children we moved to Royal City where we developed our current farm into productive irrigated agriculture land. We farm 450 acres and normally grow wheat and corn in rotation with other crops such as dry edible beans, seed crops, vegetables, alfalfa, and malt barley. We currently are raising wheat, corn, malt barley and 36 acres of vegetables and melons that we are producing and selling as fresh produce. Our son, Perry, although he is not living or working on the farm has an interest in it. He owns part of the 450 acres and comes home and helps when ~~when~~ his job as manager and field man of a fertilier business allows. Our two daughters and our grandchildren often come home to the farm to help out when extra help is needed.

I am pleased to have WIFE invited to testify today on the topic "THE STATE OF AGRICULTURE IN LIGHT OF THE FOOD SECURITY ACT OF 1985".

You can read and hear all kinds of statistics on farm foreclosures and bankruptcies, how farmers income is either increasing or decreasing, how the farm crises is improving or deteriorating, whether land prices have bottomed out or whether they are still on the downward trend. You hear that the only farmers in trouble are those who have over extended themselves and are heavy in debt. The list goes on with stories about the problems in agriculture. Many of these reports are conflicting.

As a national officer of WIFE I communicate with some of our members across the country almost daily. Earlier this month we held our mid year national steering committee meeting and 82 women attend from 19 states. At the close of our WIFE meeting I attended the National Farm Womens Forum which included women from other farm organizations including general and commodity groups.

After talking with this broad spectrum of women I would like to tell you how I preceive this topic. My perception is that agriculture in general is still in a depressed state although some commodities are seeing some improvement.

There are four commodities groups that feel provisions in the 1985 farm bill are helping their farms operations remain solvent. They are cotton, rice, sugar and peanuts.

WIFE's National Cotton Commodity Chairwoman says, an Agriculture Department cotton report forecasts that U.S. supplies at the end of the 1987-88 season, which starts August 1, will amount to 4.3 million bales. This means the price depressing surplus has almost been worked off. A 3.5 million bale carryover is considered ideal. She reports under the marketing loan provision exports are almost back to normal and domestic sales are good and price is much improved. The drop in the value of dollar has helped with sales of cotton in the export markets.

WIFE's National Rice Commodity Chairwoman reports that rice producers are pleased with the marketing loan provision, and the export enchancement program. They are now seeing the rice surplus diminish with temporary storages empty. Rice producers are now beginning to see income improvement.

WIFE's Sugar and Peanut Commodity Chairwomen also report satisfaction with the current legislation. There is concern though with increased production costs and manuevers to lower the producer prices.

The wheat, feedgrains and soybeans producers are not realizing price recoveries that we see in the four commodities mentioned above. We continue to see a surplus in these commodities.

Wheat and feedgrain commodities set the base for agriculture in general, consquently wheat and feed grain policy often determines the viability of non-program crops. An example of this was under the 50/92 provision. When producers were allowed to plant non-program crops on conserving use acres that created surpluses in those commodities. In the Columbia Basin we still see stacks of the 1986 alfalfa hay crop. Now, the 1987 crop is being stacked along side. The 1st cutting harvest is complete and the 2nd cutting is beginning. We saw hay prices drop from $90 to $100 for the 1985 crop to $45 to $60 for the 1986 crop. We are seeing a $60 price range for the new crop. Adding to the dilemma for the hay and feedgrain producer was the milk production termination program. It reduced a market that they had been producing for. Adding to the dilemma, the dairyman who sold all of his cows still had his land. Production on this land had previously been used for raising some of his own feed. With no cows of his own to feed that production was put into the market place and was sold to neighboring dairymen. Again adding to the surplus problem in other commodities.

We saw the dry edible bean producers rally quickly when the 50/92 program gave permission to plant their commodity on conserving use acres. They were successful in getting the provision changed to not included dry edible beans. They were also told "where were you when the bill was being written?" Traditionally non-program crops producers haven't became involved in the process as they feel the program is not directed towards them.

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Credit is a real problem today. We know that Congress is considering legislation to bail the Farm Credit System out. The simple answer to the problem is, let the farmers do the bailing out. If we were receiving a price that would cover production costs plus a fair return for our investment then we would be able to service the debts that we have occurred. With the cash flow problems farmers are having we see interest rates increase. We are told that we are high risk therefore they must raise interest rates to us which only makes it harder to cash flow.

We hear the story that farmers have overextended themselves. I know farmers who are being placed in this catagory. During the 1970's when the picture of agriculture look promising many farmers extended themselves, not because of greed, but because they had sons, daughters or other young members of their families that wanted to get involved in farming. They purchased additional land at higher interest rates. Now they find themselves in financial trouble with the continued rise in production costs coupled with decreased farm prices. Some of my lifetime friends have now lost everything, because they had children growing up at a time when farming looked good and they tried to help them. Those who say it is mismanagement have not walked in the shoes of those who were trying to help family members become established in a business that they loved and which looked promising at the time. Now these farmers are being made to feel they are failures.

To operate a professional farm efficiently it takes full time attention by all those involved. Under current economic conditions we are seeing off farm employment necessary to support the family living. This is hurting the efficiency of the farm operation. Many of our WIFE members have taken off farm jobs. I personally am working at a off the farm job for the first time to supplement our living expense. The money that I have been making from my part time job has only been covering my husbands and my medical insurance. Our medical insurance increased from $247 to $332 per month this year. My part time job is flexible but it does affect our efficiency. I am not keeping our farm books up to date, nor am I available to help out in the field when the need arises. When farmers are forced to depend on off farm jobs to support the families living then the efficiency drops greatly.

In conclusion, I want to say Thank You for inviting WIFE to testify here today. I know that you are as concerned about the future of agriculture in America as I am or you wouldn't be holding this hearing. The United States MUST maintain its food and fiber producing capabilities. The family farm structure is the best security we have to protect that capability. With all of us working together I know that we will solve the problems and we will preserve the family farm structure that we have today.

WIFE Women Involved in Farm Economics

NATIONAL POLICY POSITION OF WIFE

SURPLUS REDUCTION MUST BE A PRIORITY, utilizing tools such as the MARKETING LOAN where applicable, also including the development of LONG TERM IMPORT/EXPORT POLICY and the MARKETING OF VALUE-ADDED PRODUCTS.

A SUPPLY MANAGEMENT PROGRAM, BASED ON UNITS THAT WILL BALANCE SUPPLY WITH DOMESTIC AND FOREIGN DEMAND MUST BE IMPLEMENTED, possibly USING A TWO-TIERED PRICE AND PRODUCTION CONTROL MECHANISM.

Until the current surplus is reduced and an adequate supply management program is functioning, TARGET PRICES MUST BE FROZEN AT CURRENT LEVELS.

FISCAL RESPONSIBILITY SHOULD BE A GOAL OF ANY FARM PROGRAM. Once the current surplus is reduced and production balanced with demand, government costs can be dramatically reduced.

Recommendations from National WIFE - January 1987
Issues to be Addressed by the 100th Congress in 1987

1. Reduce present agricultural surplus
2. Supply management on a unit basis
3. Develop a Long Term Import/Export Policy: Address the immediate need of neutralizing exchange rates, reciprocity (ie a mutual exchange of goods and services), and the labeling of imports and exports as to point of origin and content
4. Freeze target price at current levels
5. A two-tiered price system triggered on price or production
6. Marketing loans where applicable
7. Fiscal responsibiltiy of agricultural policy
8. Marketing Value-Added Products, including ethanol
9. Historic Parity Pricing: PARITY IS: A ratio of the prices producers receive for what they sell in relationship to the cost of goods producers purchase.
10. Conservation: Policy that will provide incentives to encourage and enable the U.S. farmer to use good conservation practices
11. Preservation of Family Farm Structure: WIFE supports the preservation of the family farm structure which maintains rural economic and social stability, while providing the United States with a stable, affordable supply of food and fiber.

The United States must maintain its food and fiber producting capabilities.

Senator **Melcher**. Thank you, Alice, I see that attached to your prepared statement is a national policy position of WIFE and I see that the number one recommendation or the first recommendation is to reduce the present agricultural surplus.

So, WIFE has already gotten to the point of my question that I have asked every other witness and that is how do we get rid of the surplus.

I think that we all have background in understanding what is necessary for rural America and why it is necessary. Your organization, among all others, cannot be anywhere but in the big league of understanding what needs to happen in order to preserve rural America.

All your membership—all the women on the farms and ranches of this country are involved and so I need not repeat any of what you already know in the vitality of rural America being jeopardized at this time and why it is jeopardized.

I think the thing we do not do enough of, however, is demand action. This arrangement of tables that we now have in this hearing room may be a little bit different than we had 5 years ago or 20 years ago. But still seated around here in full committee are the people who determine what agriculture policy is for this country.

I am not satisfied with this present administration and its agricultural policy, but that is not because I am a Democrat and they are Republican. I was not satisfied with the agriculture policy we had under President Carter, a Democrat. What happens around this table can either make for good agricultural policy or poor agricultural policy. And, so, we cannot duck it here.

What all of you ought to be doing as you approach these hearings is to demand very strongly that action be taken and to demand it of us. Collectively we can force this administration or any other administration to do what must be done.

A determined committee of the Senate can get what it takes out of any administration.

We think we know the right direction. Perhaps we do. There are sparks and spurts of showing that we know the right direction. But there has not been a followthrough, there has not been a continuous demand, "Do it like we told you to do it."

We cannot back up and say, "Well, if it had been done differently, it would be better now." We all know that. That is a cliche that is overworked.

What is important is that we demand at this moment in time, for this month, next month, the rest of this year, first part of next year what ought to be done and then make it happen.

We have passed an awful lot of laws, some of them good, some of them bad, but we always had the capability and the responsibility in sorting out the good from the bad and going forward with the good and reassuring it and strengthening it and devising other better law.

That is our business. It is the only reason that we are here.

Ms. **Parker**. I think, Mr. Melcher, that the American public has become lax and very accustomed to a high quality food and fiber industry and the availability of that, and they have lost real touch with reality in where that comes from. I think that we have got to demand of the American public also that agriculture—make them understand that agriculture is important to their lives and they are very dependent upon us.

Senator MELCHER. What you are saying is that the American public has taken American farmers and ranchers for granted for too long.

Ms. PARKER. That is exactly right.

Senator MELCHER. What all of us in this room believe, I hope, is that the American producer is the most significant part of all of this. Is it not?

Ms. PARKER. That is correct.

Senator MELCHER. The American producer is the greatest asset we have.

Ms. PARKER. We are the foundation of it.

Senator MELCHER. Let me tell you what this committee should do in spades and that is say that price is important and without price you do not have producers.

Ms. PARKER. That is right.

Senator MELCHER. These hearings are devised in order to gather the committee in force to say that price is important, that surplus is antagonistic toward price and that surplus must be reduced and we must do it immediately. We must get on with the business of bringing up the price so that producers themselves can survive and therefore rural America will survive and therefore the country will be better off, a stronger economy and a freer world.

Ms. PARKER. We are continually seeing our cost of production increase and we must keep up with that price that we are going to receive for our products. We cannot continue to pay more and receive less and stay in business.

Senator MELCHER. Absolutely. That is farm economics, is it not?

Ms. PARKER. It is. It is the real economics.

Senator MELCHER. The real world.

Ms. PARKER. I would like to share with you what an economics professor said to me one time, he said, "You, on the farm, are living the real economics not a bunch of economic theories that are not working today."

Senator MELCHER. That is right. Thank you very much, Alice.

Ms. PARKER. Thank you, Senator Melcher.

Senator MELCHER. Without objection, your statement will be placed in the record.

The subcommittee is adjourned.

[Whereupon, at 11:55 a.m., the subcommittee recessed, to reconvene at 10:05 a.m., Thursday, June 25, 1987, in room SR-332, Russell Senate Office Building.]

THE CURRENT STATUS OF FARM PROGRAMS

Testimony From Commodity Organizations

THURSDAY, JUNE 25, 1987

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room SR-332, Russell Senate Office Building, Hon. John Melcher (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Melcher, Conrad, Heflin, Cochran, and Bond.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. The subcommittee will come to order.

This morning we will have our third day of testimony regarding the 1985 farm bill. This morning we are privileged to hear from representatives of the various commodity groups. I believe there are about nine groups present today who are involved in the production of commodities in the United States.

The prepared statement of Senator Howell Heflin will be received and entered in the record.

PREPARED STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Mr. Chairman, I would like to commend your efforts in holding this hearing on the Status of Farm Programs. I would also like to welcome our panelists to the subcommittee and look forward to their testimony.

Mr. Chairman, as we review the different commodity programs of the 1985 Farm Bill, I believe it is important to hold such a hearing in order that commodity groups can give us more of an insight into what they believe to be the successes and failures of the existing farm bill. As I have stated before, I do believe that certain provisions of the bill are working, such as the cotton and peanut programs. However, I do see a need to review the current programs for feed grains and soybeans for possible changes.

It is my hope that we may continue to consider all possible alternatives to these problems with the primary goal being to stabilize and strengthen the family farm.

Thank you, Mr. Chairman.

Senator MELCHER. The first witness we have scheduled is James Lee Adams, Jr., who is vice president of the American Soybean Association and our next witness is Jim Lindsay, chairman of the National Soybean Processors Association. I think we would like to take you both together.

We are going to hear from James Lee Adams, first.

STATEMENT OF JAMES LEE ADAMS, JR., VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, CAMILLA, GA

Mr. ADAMS. Thank you, Mr. Chairman. I am James Lee Adams. I am a soybean farmer from Camilla, GA. I farm 2,500 acres of land, 400 acres in soybeans. I am also vice president of the American Soybean Association [ASA] and I am here today representing farmers in 29 States.

I would also request that the full text of my prepared statement be inserted in the record.

Senator MELCHER. It will be made part of the record.

Mr. ADAMS. Thank you.

Last year, American Soybean Farmers produced a 2 billion bushel crop on 61 million acres, worth $9.6 billion. About 48 percent of our total production was exported last year. We realize that exports are essential for our profits.

But soybean farmers also know their largest market is here at home. Just over one-half of U.S. soybean production is purchased by U.S. soybean processors.

I am here today to discuss the current soybean farm program and alternatives for change. Our U.S. farm programs are sending the wrong signals abroad, fueling our competitors to expand soybean production—at our expense.

Unless modified, we believe present farm programs will continue to undermine the structure of the soybean industry. Today's soybean program has the perverse effect of stimulating foreign production, undermining our international competitiveness and exporting our soybean industry overseas. Since this foreign production frequently enjoys the benefit of export subsidies, U.S. exports of soybeans and soybean products face a difficult challenge to be competitive in the world oilseed marketplace. Moreover, our major soybean competitors face tremendous international debt obligations, which they must repay the only way possible—by exporting soybean products among other items to generate hard currency revenues.

Unless the soybean program is changed, this alarming trend will continue and, we feel, accelerate. The entire American soybean industry will become an increasingly residual supplier while our fierce competitors move ahead.

I am here today to ask you to consider several alternatives to the current farm program to reverse this threatening trend.

U.S. soybean farmers believe we are competitive producers of soybeans and that, in a world of reduced foreign production/export subsidies and competitive U.S. pricing policies, their market share and profitability will improve.

ASA POSITION ON SOYBEAN PROGRAM

Just last weekend, soybean state presidents representing all producing areas met and debated the current soybean program at great length. They agreed that ASA should continue to support its soybean program that provides a minimum goal of $5.02 per bushel income, discourages stock building, and excludes a payment limitation or acreage controls. These soybean program objectives could be accomplished through several means, such as a marketing loan, a producer option payment or a cash certificate program.

USDA has the authority to implement a marketing loan under the 1985 farm bill. Legislation would be required to implement the other two options.

It is my understanding the committee is very familiar with the operation of a marketing loan program and a production option payment. I would like to focus on the third option. A cash certificate program would allow USDA to provide a direct cash payment to farmers and with the remainder of the loan paid in certificates. The certificate portion of the loan could be forgiven and the cash portion paid at the higher of the original cash payment level or the market price.

Thus, if the cash payment were set at, for example, $4.25 per bushel, with a 52-cent payment in certificates, the loan rate would no longer support the world market price at levels which stimulate production and exports of our competitors.

ASA has commissioned an economic study to calculate the effects of soybean program options on competitiveness, farmers and Government costs. Although the study is not yet complete, preliminary results suggest the $4.77 marketing loan for soybeans actually saves CCC budget outlays over the current program. This occurs because CCC, number one, will not acquire ownership of soybeans under a nonrecourse loan, and two, the difference between the loan rate and the world price—the repayment rate and therefore per bushel budget exposure—would be relatively small.

Also, we feel that the scenario is different when the cotton program and the rice program were implemented and we are in a situation now where prices are trending up in the soybean sector, versus a time when these other program prices were tending to go down.

ASA supports action by Congress to stand by U.S. soybean farmers with reasonable income support while encouraging competitive prices for the 1987 to 1990 crops. ASA has strongly encouraged the administration to exercise its discretionary authority to implement such a program, and will continue to do so since no action has yet occurred.

WHY A SOYBEAN PROGRAM WITH COMPETITIVE PRICING?

Mr. Chairman, a soybean program with competitive pricing is needed since the current program is exporting U.S. production overseas. Fewer U.S. soybean growers will be farming fewer acres of soybeans here while production expands to meet world demand. This world demand is increasing.

This trend, already underway, soybean acreage has dropped from 71 million acres in 1979 to 57 million acres to date. Our competitors have added 1.5 acres into production for every 1 acre we have taken out of production.

We appreciate the understanding and support that you and 42 other Senators gave to the U.S. soybean industry in your May 28 letter to Secretary Lyng outlining these problems.

Today, the corn target price of $3.03 compared to the 1987 soybean loan rate of $4.77 to $5.02, means that U.S. growers see a clear signal to maximize corn acreage within the constraints of the program.

As you indicated in your letter to Secretary Lyng, the soybean-corn cash price ratio sends a clear message to foreign producers to cut back on feed grain acreage and expand soybean acreage.

Under the present soybean program, this policy of economic shrinkage at home and dynamic expansion abroad will continue. Production will continue to grow unabated for soybeans in South America, palm oil in Malaysia, soybeans in China, rapeseed in Canada, and oilseeds in the European Community.

This trend is even more alarming as we see overall demand for protein and oils growing at 4 to 5 percent annually. The U.S. market share is not even holding steady, but declining.

The United States must stop telegraphing its minimum soybean price to our competitors. Instead, let us put our competitors at risk, so that they plant their soybeans and other oilseeds in the coming year, they must plant without a virtual price guarantee by our loan rate. In the short run, this would discourage further expansion in foreign production and actually reduce soybean acreage abroad in the long run.

CONCLUSION

We must reverse the alarming trend of the U.S. soybean industry shrinking, due to our own farm programs, while world demand continues to grow.

In conclusion, we strongly urge Congress to encourage, even require, the administration to modify the current soybean program to turn around the severe problems we have outlined here today. We stand ready to work with you so that Federal support is redirected to help the soybean industry position itself for a healthy future.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Adams follows:]

TESTIMONY OF JAMES LEE ADAMS, JR.
VICE PRESIDENT
AMERICAN SOYBEAN ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

JUNE 25, 1987

Mr. Chairman, I'm James Lee Adams, a soybean farmer from Camilla, Georgia. I farm 2,500 acres of land, 400 in soybeans. I'm Vice-President of the American Soybean Association (ASA), a national non-profit organization representing U.S. soybean farmers with members in 29 states. ASA seeks to increase the opportunity for U.S. farmer profitability through its market development, research, government relations and trade policy activities.

Last year, American soybean farmers produced a 2 billion bushel crop on 61 million acres, worth $9.6 billion. About 48% of our total production was exported last year. Production from every one row in four, some $2.4 billion, is sold to the European Economic Community (EEC) annually. Japan is the largest single-nation market for American soybean farmers, and traditionally purchases about $900 million-worth annually. Other significant markets exist in Asia and South America. American soybean farmers realize that exports are essential for the profitability of their industry.

But soybean farmers also know that their largest market is here at home. Just over half of U.S. soybean production is purchased by U. S. soybean processors, which then crush them into soybean meal and soybean oil for domestic and export sales.

ASA appreciates the opportunity to appear before your Subcommittee today to discuss the current soybean farm program and alternatives for change. There are very significant challenges facing American soybean farmers and processors. U.S. farm programs are sending the wrong signals abroad, fueling our competitors to expand soybean production ... at our expense.

Unless modified, we believe present farm programs will continue to undermine the structure of the soybean industry. Today's soybean program has the perverse effect of stimulating foreign production, undermining our international competitiveness and exporting our soybean industry overseas. Since this foreign production frequently enjoys the benefit of export subsidies, U.S.

exports of soybeans and soybean products face a difficult challenge to be competitive in the world oilseed marketplace. Moreover, our major soybean competitors face tremendous international debt obligations, which they must repay the only way possible .. by exporting soybean products among other items to generate hard currency revenues.

Unless the soybean program is changed, this alarming trend will continue. The U.S. farmer's position as the Number 1 supplier of soybeans to the world will continue to diminish. U.S. soybean processors will continue to face a shrinking market share. The entire American soybean industry will become an increasingly residual supplier while our fierce competitors move ahead.

I'm here today to ask you to consider several alternatives to the current farm program to reverse this threatening trend.

American soybean farmers understand we live in a competitive world. We are working hard to increase efficiency and competitiveness to rebuild our world market share.

U.S. soybean farmers believe they are competitive producers of soybeans and that in a world of reduced foreign production/export subsidies and competitive U.S. pricing policies, their market share and profitability will improve.

ASA POSITION ON SOYBEAN PROGRAM

We recognize that ASA's proposals for change in the soybean farm program have taken several forms in the past several years. However, ASA has consistently supported a policy which allows soybeans to be competitive with foreign production and provides grower income support.

ASA hopes this policy will help reposition the soybean processing industry as a strong competitor, if not once again the dominant competitor, in the world market for soybean meal and soybean oil.

Just last weekend soybean state presidents representing all producing areas met and debated the current soybean program at great length. They agreed that a change is urgently needed. After many options were discussed these ASA farmer leaders decided to recommend adoption of a soybean program providing income support and competitive pricing to ASA's policy-setting delegates for consideration in August 1987. These 270 farmer delegates are elected by the soybean farmers in their respective states to represent them at ASA's annual August policy-setting meeting.

ASA soybean state presidents agreed that ASA should continue to support a soybean program that provides a minimum $5.02 per bushel income, discourages stock building, and excludes a payment limitation or acreage controls. These soybean program objectives could be accomplished through several means, such as a marketing loan, a producer option payment or a cash-certificate program.

It is my understanding the Committee is vary familiar with the operation of a marketing loan program and a production option payment. However, a relatively new concept, called the "cash-certificate program," would allow USDA to provide a direct cash payment to farmers and with the remainder of the loan paid in certificates. The certificate portion of the loan could be forgiven and the cash portion repaid at the higher of the original cash payment level or the market price.

Thus, if the cash payment were set at, for example, $4.25 per bushel, with a 52¢ payment in certificates, the loan rate would no longer support the world market price at levels which stimulate production and exports of our competitors. There have been several studies done about the competitiveness and relative cost of soybean production in the U.S. versus Brazil and Argentina. One recent report issued by Ohio State University concluded that the variable cost of production of soybeans in Argentina was 15% above the U.S. cornbelt/lake states. Brazil's variable cost of production was 38% above the U.S. average, according to the report.

Because a soybean program is urgently needed to allow U.S. soybeans to be more competitive in world markets, we urge your careful study of a soybean marketing loan, a producer option payment and a cash-certificate program.

ASA has commissioned an economic study to calculate the effects of soybean program options on competitiveness, farmers and government costs. Although the study is not yet complete, preliminary results suggest that a $4.77 marketing loan for soybeans actually saves CCC budget outlays over baseline in FY 1988. This occurs since CCC will not acquire ownership of soybeans under non-recourse loan and the difference between the loan rate and the world price (the repayment rate and therefore per bushel budget exposure) would be relatively small.

ASA supports action by Congress to stand by U.S. soybean farmers with reasonable income support while encouraging competitive prices for the 1987-90 crops. While we believe that the U.S. Department of Agriculture has sufficient authority to modify the soybean program to meet these objectives, no action has been forthcoming. ASA has strongly encouraged the Administration to exercise its discretionary authority to implement such a program, and will continue to do so.

WHY A SOYBEAN PROGRAM WITH COMPETITIVE PRICING?

Mr. Chairman, let me take a few minutes to review why a change is needed in the soybean program.

The Current Soybean Program is Exporting U.S. Production Overseas. The 1985 farm bill established a soybean program that, when considered in relation to the U.S. farm programs of other crops, created a soybean loan rate high enough to stimulate oilseed production abroad.

Mr. Chairman, we appreciate the understanding and support that you and 42 other senators gave to the U.S. soybean industry in your May 28 letter to Secretary Lyng outlining these problems. This letter told the Secretary that:

"We are deeply concerned that the soybean industry continues to contract and believe that the decline in soybean acreage and the shrinkage of soybean processing as a percentage of capacity are directly related to the inequities of existing policies. Furthermore, because of the nature of the non-recourse loan program, CCC provides a floor to world market prices. Domestically, the market-oriented programs for feedgrains have resulted in artificially high price ratios. Overseas, U.S. soybeans are becoming uncompetitive because loan rates are unable to react to market conditions."

An increasing number of American farmers are planting for the target price program ... but foreign producers plant for the world cash price, supported by U.S. prices.

U.S. corn/soybean growers make their planting decisions by looking at the comparative return from the corn target price versus the soybean loan rate. However, farmers outside the United States and their governments look to the soybean-corn cash price ratio to make planting decisions since they are not eligible for deficiency payments. A general rule of thumb is that if the soybean price is more than 2.4 times the corn price, a farmer raises soybeans. If the soybean-corn ratio is less than 2.4:1, he raises corn.

Today, the corn target price of $3.03 compared to the 1987 soybean loan rate of $4.77-$5.02 (depending on the level designated by USDA) means that U.S. growers see a soybean-corn ratio of 1.6 - 1.7 ... a clear signal to maximize corn acreage within the constraints of the program. USDA's March 1987 Planting Intentions Report demonstrates this situation.

As you indicated in your letter to Secretary Lyng, the soybean-corn cash price ratio sends a clear message to foreign producers to cut back on feed grain acreage and expand soybean acreage. Since the cash soybean price is supported by the U.S. soybean loan rate, while the corn cash price is below the corn loan rate due to PIK & ROLL, the soybean-corn cash price ratio clearly favors more soybean production by our foreign competitors.

This is even more true in light of the recent soybean price rally. Cash soybean prices have ranged from $5.50-$6.00 per bushel, while corn cash prices range from $1.50-$1.80 per bushel. This means the soybean-corn cash price ratio has been as high as 4.0 in recent weeks.

Under the present soybean program, this policy of economic shrinkage at home and dynamic expansion abroad will continue. Production will continue to grow unabated for soybeans in South America, palm oil in Malaysia, soybeans in China, rapeseed in Canada and oilseeds in the European Community. The most notable example of this is Argentina where soybean acreage increased to a record 9 million acres in 1987 ... up 750 million acres or 9% over last year's record. Brazil's production will likely reach a near-record 17 million mt (624.6 million bushels). The upwards production trend is clear.

This increased production is in turn exported, and the result is declining world market share. The decline in the value of the dollar is helping the United States arrest the slide in world market share, but no significant reversal is seen without alterations in the U.S. soybean farm policy.

The facts bear out our declining position in the world market ...

o The U.S. share of the world soybean market has fallen from 84% to 73% since 1979, while the world soybean market share jointly held by Brazil and Argentina is now 19%, up from 12%.

o Even more dramatic is that is our South American competitors now have almost a 40% share of the world market for vegetable oil, while the U.S. share is only 18%. In 1979, the United States accounted for 37% of total world vegetable oil market, while Brazil and Argentina has less than a 20% share.

o In 1979, the United States accounted for 41% of all soybean meal exports, while Brazil and Argentina combined had a 32% share ... and by 1986, Brazil and Argentina had 47% of the world market while the United States has less than 25%.

This trend is even more alarming as we see overall demand for protein and oils growing at 4-5% annually. The U.S. market share is not even holding steady, but declining. Our competitors are taking over many of our traditional markets and reaping the benefits of an expanding market.

To dramatize this point, if the U.S. had maintained its 1979 market share of soybean trade, U.S. exports would be 30% above current levels. That's nearly equal to the Iowa's entire soybean production estimated for 1987! And every 1% loss in our world market share at today's export volume means lost sales of some 20 million bushels ... equal to the combined soybean production of Texas and Alabama!

ASA is deeply concerned that continuation of the current soybean program whereby the loan rate supports the cash price will continue exporting our soybean production capacity overseas. Fewer U.S. soybean growers will be farming fewer acres of soybeans here while foreign production expands to meet world demand.

This trend is well underway. Soybean acreage has already declined by almost 11 million acres since 1979 while foreign soybean acreage increased by 15 million acres during the same period. This trend must be stopped where our competitors add almost 1-1/2 acres to production for every acre we remove. We have seen U.S. acreage decline from over 70 million acres in 1979 to about 56.9 million acres anticipated this year. Soybean farmers believe they have experienced a defacto set-aside of significant proportions caused by market forces and government edict.

A soybean program that provides grower income support while allowing U.S. market prices to drop will make foreign oilseed subsidies more expensive. In the short run, this would discourage further expansion in foreign production and actually reduce soybean acreage abroad in the long run. No longer would the U.S. soybean loan rate be a price floor under the world market that our competitors can easily undercut with export subsidies.

The United States must stop telegraphing its minimum soybean price to our competitors. Instead, let's put our competitors at risk, so when they plant their soybeans and other oilseeds in the coming year they must plant without a virtual price guarantee. We support a soybean program which allows prices to become competitive and find their true supply/demand equilibrium.

Mr. Chairman, I'd like to point out a perverse irony of the present U.S. soybean program. As a result of the program, our competitors are getting higher prices during their harvest than U.S. farmers receive during theirs! The farm bill's CCC soybean resale provision has forced processors to bid cash soybean prices upwards to purchase the CCC-owned soybeans needed to operate until 1987-crop soybeans become available. The national average CCC resale price for May - August is $5.57 per bushel, equal to 105% of the loan level $4.77) plus carrying charges of 56.47¢.

Soybean prices have edged higher because of a tight free stocks situation and because CCC owned a significant volume of soybeans processors needed to access to continue crushing operations. In early May, CCC owned about 425-450 million bushels of soybeans, and USDA predicted a September 1 carryout of 570 million bushels. That means nearly over 80% of total projected surplus stocks were owned by the government! This encouraged a price rise, and CCC has sold some 157 million bushels since May 1, 1987 ... sometimes at a healthy profit above the resale price.

American soybean farmers welcome higher soybean prices and we support CCC soybean sales to move stocks into the market to discourage surplus supplies from overhanging the market. However, Brazil and Argentina are benefitting the most from the price rally, not U.S. farmers. Since their soybean crop is harvested in our spring (their fall), these countries traditionally dominate the world soy marketing during the last half of the marketing year. We only hope the price rally is sustained until we begin marketing our 1987 crop.

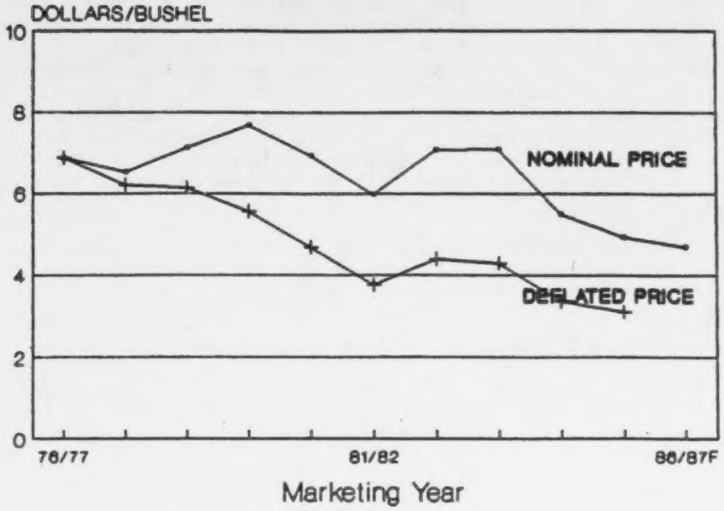
Conclusion

We must reverse the alarming trend of a U.S. soybean industry shrinking, due to our own farm programs, while world demand continues to grow.

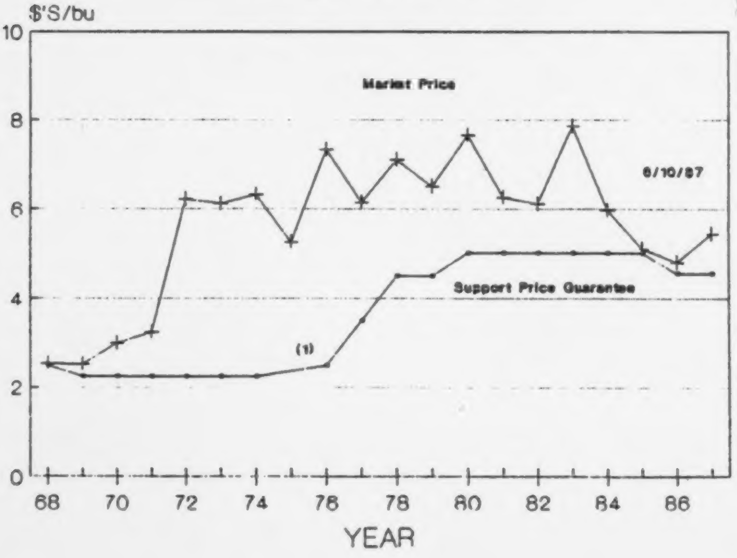
In conclusion, we strongly urge Congress to encourage, even require the Administration to modify the current soybean program to turn around the severe problems we have outlined here today. Instead of continuing the current out-moded soybean program, ASA believes it would be far better to restructure the program so that federal support is redirected to help the soybean industry position itself for a healthy future.

Attached graphs follow:

U.S. SOYBEAN PRICE
(Farm Level)



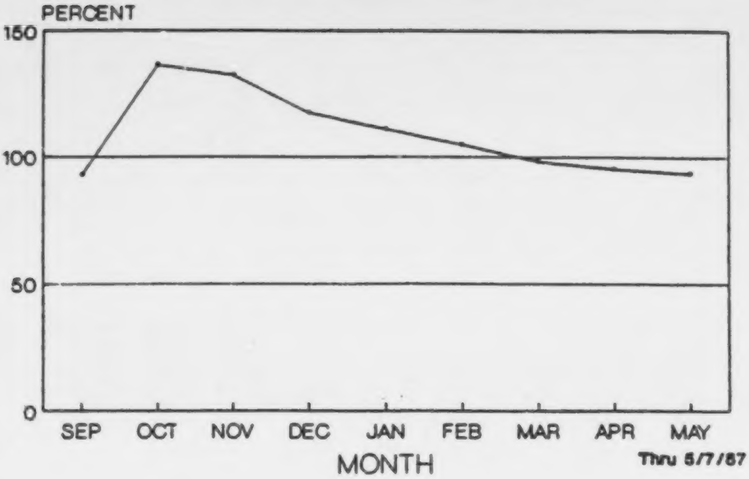
U.S. Non-recourse Soybean Loan Program Provides "Insurance" for foreign expansion....



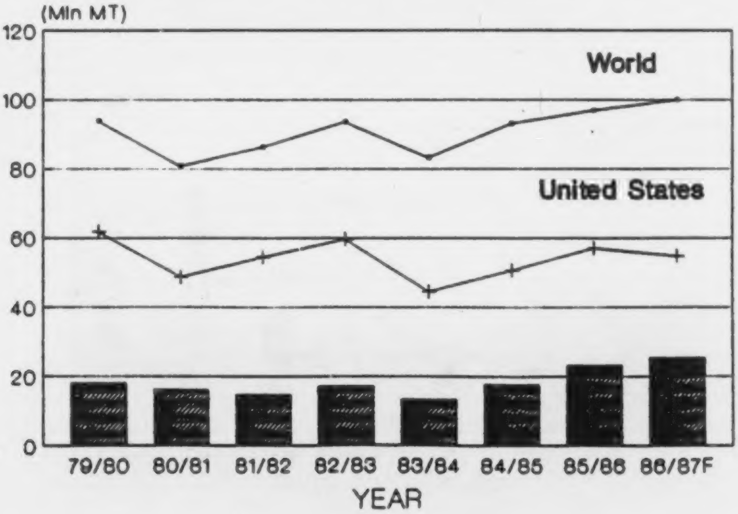
American Soybean Association. June 1987

SOYBEAN EXPORTS DIP BELOW YEAR AGO

Cumulative Exports as % of Year Ago

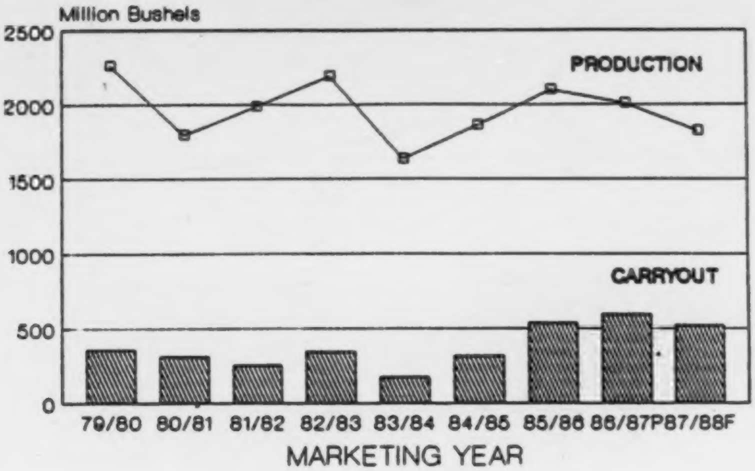


U.S. SHARE OF WORLD SOYBEAN PRODUCTION SEEN DECLINING AGAIN THIS YEAR

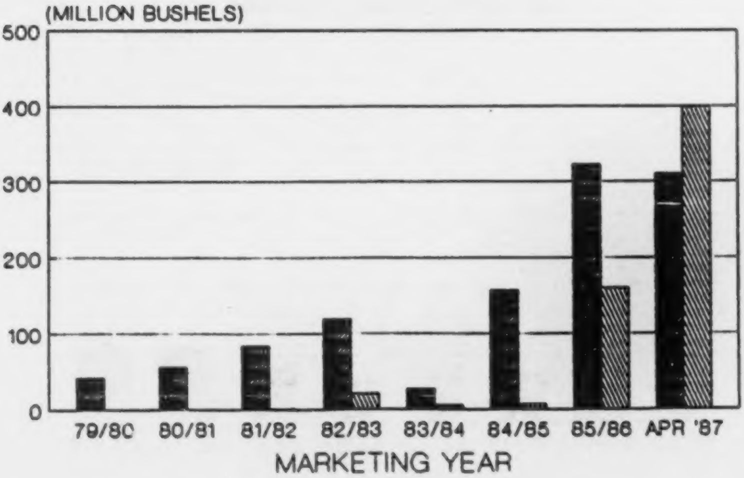


American Soybean Association, June 1987

U.S. SOYBEAN PRODUCTION & CARRYOUT (Million Bushels)

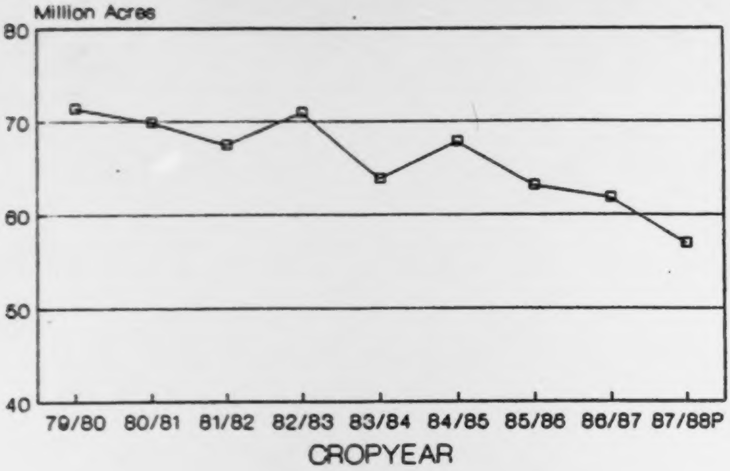


GOVT. CONTROLLED SOYBEAN STOCKS WILL REMAIN BURDENSOME

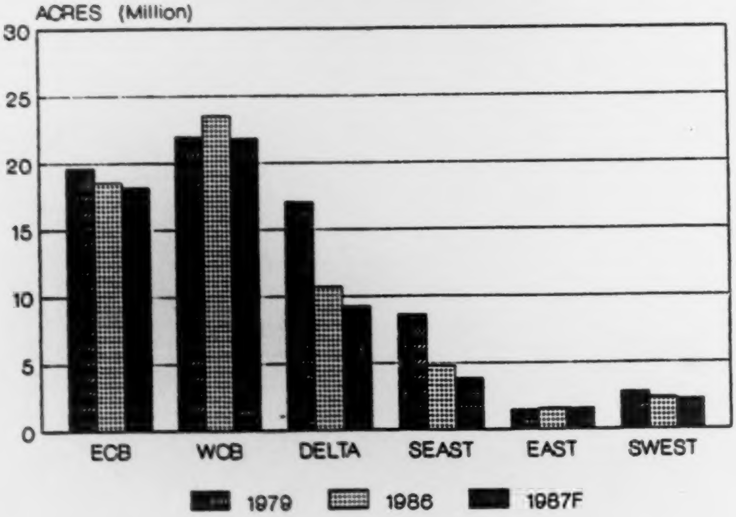


American Soybean Association, June 1987

U.S. SOYBEAN PLANTING INTENTIONS SHOW ANOTHER SIGNIFICANT DECLINE

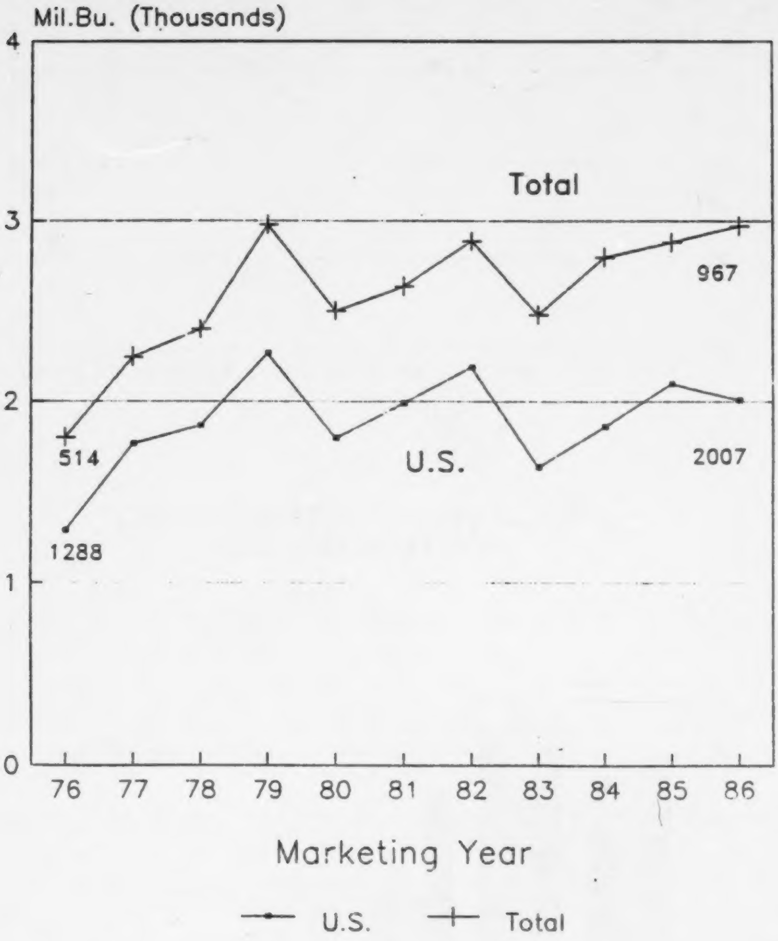


ACREAGE DECLINE OUTSIDE CORNBELT ACCELERATES IN 1987

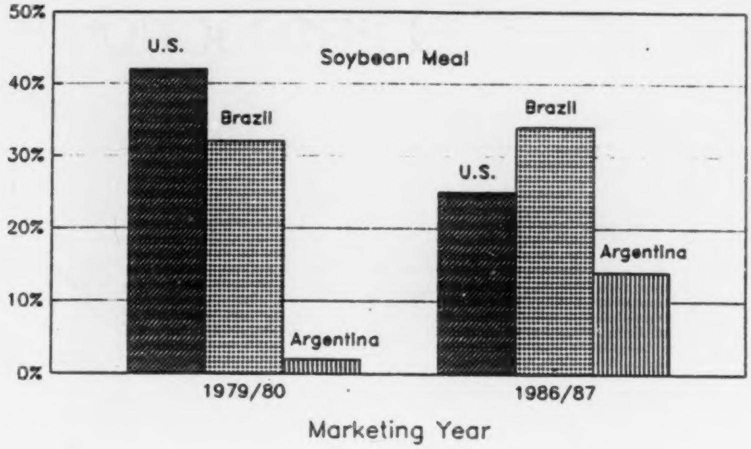


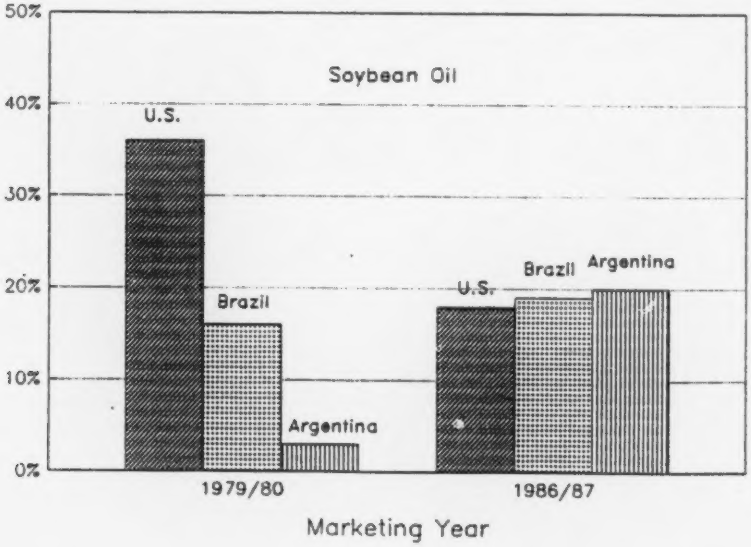
American Soybean Association, June 1987

SOUTH AMERICAN SOYBEAN PRODUCTION OUTSTRIPS U.S. PRODUCTION

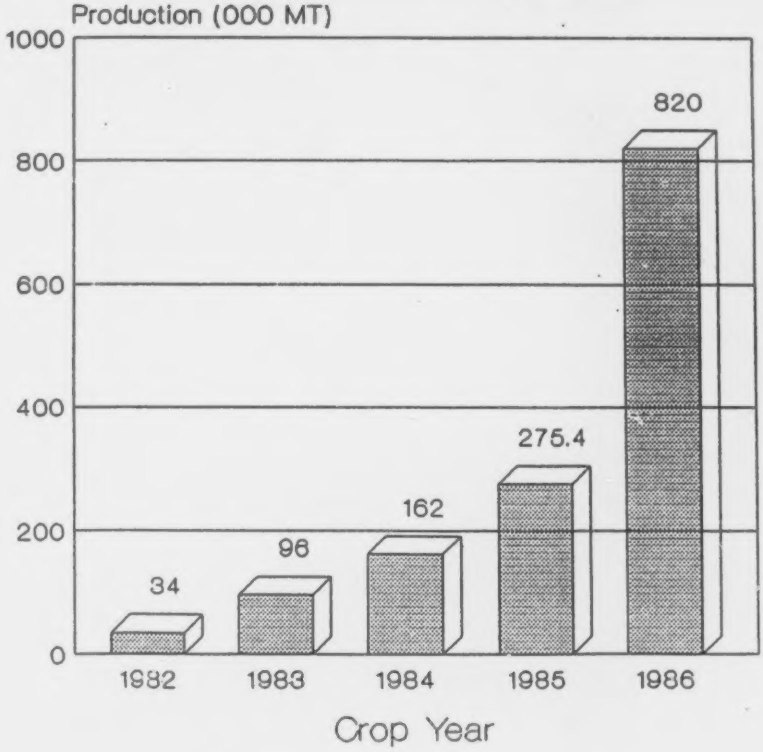


SHARE OF WORLD SOYBEAN MEAL & SOYBEAN OIL

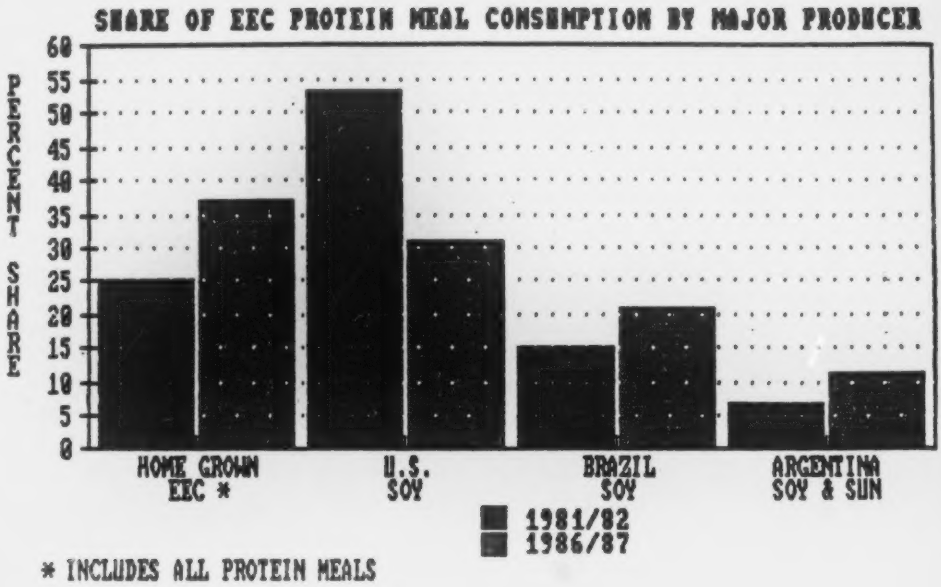




EC-12
SOYBEAN PRODUCTION



Source: Oil World



American Soybean Association, June 1987

Senator MELCHER. Thank you, James.

Jim Lindsay, we will hear from you next and then I might have a question or two for either one of you or both.

STATEMENT OF JAMES W. LINDSAY, CHAIRMAN, NATIONAL SOYBEAN PROCESSORS ASSOCIATION, AND CEO OF AG PROCESSING INC., OMAHA, NE

Mr. LINDSAY. Mr. Chairman, I would like to thank you for giving me this opportunity to testify before your subcommittee today regarding this important issue.

In the interest of saving time, I would like to summarize the prepared statement that has been submitted to the subcommittee. I would, however, like that testimony to be part of the record.

Senator MELCHER. It will be part of the record.

Mr. LINDSAY. First, my name is James Lindsay. Today I am really wearing two hats. In my capacity as a CEO of Ag Processing, I represent the largest farmer owned soybean processing company in the world. AGP is owned by 322 local cooperative associations representing 270,000 farmers from 10 States.

Our business is almost completely dependent upon domestic soybean processing and therefore we are particularly sensitive to policies made here in Washington.

In my other role today, as chairman of NSPA, I am representing the largest customer of U.S. soybean growers. The NSPA is made up of 13 members who own plants in 21 States and represent 85 percent of the domestic soybean crush. You may be interested to know that approximately 25 percent of the NSPA members are cooperatives.

In recent years, the soybean processing industry has experienced a tremendous reduction in its share of an ever increasing world market. Attached to my prepared statement you will find a number of tables, graphs, and charts to demonstrate what has happened to the U.S. in world oilseed production, crush, and exports.

Again, I will not go into a great deal of detail about it, but I would like to point out a few figures which may be helpful. Between 1979–80 and 1985–86, the following things have happened. World oilseed production has increased over 24.5 million metric tons while U.S. soybean production has dropped 4.6 million tons. World crush has increased 24.4 million metric tons while U.S. soybean crush has dropped 2 million tons.

During a time when the U.S. trade deficit is a record high, we find that net exports of world edible oils and fats have increased 4.1 million tons since 1979–80 while U.S. soybean oil exports dropped 600,000 tons. Also world oilmeal net exports increased 6.3 million tons while U.S. soybean meal exports dropped 1.6 million tons.

The United States share of the world market for oilseeds and their products has also dropped in every category. The U.S. share of world oilseed production has dropped by 7 percent while world production increased 15 percent. The U.S. share of the world oilseed crush dropped 5 percent while world oilseeds crush increased 19 percent. U.S. share of world oilmeals production and exports dropped 6 and 15 percent respectively when the world expanded by

18 and 31 percent. The most dramatic of all is the production and exporting of world edible oils and fats which increased 26 percent and 38 percent respectively, but the U.S. share dropped 2 percent and 7 percent.

The unassisted exporting of soybean oil is virtually nonexistent. About 90 percent of U.S. soybean oil exports are now assisted in some way by the USDA when just 7 years ago only 27 percent were assisted.

Why does this situation exist? Is it because U.S. soybean processors and farmers cannot compete? The answer to that question is no. The U.S. soybean farmers and processors are the cream of the crop in world competition. We are the lowest cost producers, transporters, marketers and processors anywhere in the world.

So what is the problem? First and foremost are our commodity programs. The U.S. soybean program has sent a signal to other countries that they should produce oilseeds and we will guarantee them a profit. At the same time, our wheat and feed grains program have told them just the opposite. Domestically, the situation is reversed. Farmers have been enticed to plant wheat and feed gains acreage for the commodity programs which, in large part, has been pulled from soybean acreage. This is all at a time when world protein meal usage has grown 3.4 percent annually and world vegetable oil demand has grown 4 percent annually, which is nearly twice the rate of growth in world grain usage.

If you put the American taxpayer in a room and described this situation, he would create a program that is the exactly opposite of the one we have now. Unfortunately, the world sees all this opportunity and is going for it while we, the most competitive soybean industry in the world, are forced by U.S. Government policies to stand outside the ring, unable to fight for our markets.

Another cause of the present problem is the use of unfair trade practices by other countries and the LDC debt problem. I am not going to go into a lot of detail about these policies because that is not the purpose of this hearing, but that information is in my prepared statement as appendix I for anyone who is interested.

What are the dangers if we continue on this course? First, soybean production and processing will continue to deteriorate and foreign countries will pick up the slack. Since 1979, U.S. soybean planted acreage has declined 11 million acres while Argentina and Brazil have increased planted acreage by more than 15 million acres. Sources tell us that they are looking to expand another 25 to 30 percent just in the 1987-88 crop-year. In fact, I was talking to a friend of mine down in Brazil here some time ago and he says there is about 96 million hectares left in Brazil to plant soybeans on and if the soybean prices remain where they are, and once they get the infrastructure there, they are probably going to start planting soybeans on that 96 million hectares.

In addition, during the last 3 years, 4 cooperatives and 2 major corporations have left the soybean processing business, 9 processing plants have closed permanently, and 28 processing plants have been sold, or are now for sale. Already this year 5 soybean processing plants in Iowa, Illinois, Arkansas, and Ohio have either been closed or dismantled. I can give you a personal note on that because we have dismantled two soybean plants ourselves and have closed another one in Arkansas on a permanent basis. One of our members did some estimates that show if things do not change, U.S. soybean plantings could drop another 2 to 3 million acres per year in each of the next 2 years. This would result in a drop of 20 percent in the domestic soybean crush and soybean meal exports would be down by two-thirds. Now remember, this is all at a time when world usage of meal and oil is growing at a rate of 3 to 4 percent a year.

Another consequence of staying on the same course, is that the United States will continue to be the residual supplier of world soybeans and their products. Already, in 1987, the United States will carry-over a record 16 million tons or approximately 580 million bushels of soybeans and 1.9 billion pounds of soybean oil.

The most intimidating danger is what the world would be doing if we continue our present policies. The present soybean program allows our South American competitors to sell their product on the world market for a guaranteed profit and then to use those profits to develop their own production, transportation, marketing, and processing infrastructure.

Once that infrastructure is built, it is going to be very difficult to get them out of the market. The gap between rising demand and shrinking U.S. production creates an opportunity for South America to increase their crop by about 40 percent or 36 million tons over the next 3 years, free from U.S. competition.

So what is the solution? Very simply, the solution is to allow our soybeans, and their products, to compete freely in the world market. This should not be done, however, without providing income protection for farmers. We cannot expect our farmers to compete directly against foreign government's treasuries. By forcing other countries to make decisions based on marketing conditions and not U.S. commodity programs, we are going to be sending a signal to the world that we are not going to subsidize their expansion and the building of their infrastructure so they can compete more effectively with us in the future.

What decisions need to be made? First, the mandated authority of the 1985 farm bill left the soybean complex out in the cold. While other commodity programs were given flexibility and allowed to adjust to market conditions, the soybean program is very rigid and virtually no marketing vehicles exist. Either the 1985 farm bill needs to be changed to mandate some sort of vehicle whereby soybeans can compete on the world market and farmer income protected, or present administrative authority needs to be exercised. Again, I need to stress that our policies must be aimed at long-term solutions to our competitiveness problem and must be consistent from year to year.

Second, we need to more aggressively fight unfair trade practices of other countries. As I mentioned earlier, I will not go into a great deal of detail on this. I would like to note, however, that we, as an industry, are doing our part. The NSPA has filed a couple of section 301 cases and spent over $1 million fighting against unfair trade practices of several countries, chief of which is Argentina. Our investment, however, is only well spent when the U.S. Government stands behind us when the going gets tough. I would like to thank Members of the Senate for their active efforts concerning the EC fats and oils tax, but I would also like to remind you that the decision has still not been made and it is critical that the United States keep the pressure on the Community.

Third, the United States needs to fully utilize all available export assistance programs. As I mentioned earlier, without the Public Law 480, GSM and section 416 programs, virtually no oil would be exported now. This is not to say that the job is done, because the fact is that soybean oil exports have been more than cut in half since 1978–80. One program that particularly needs to be attended to is the Export Enhancement Program. The NSPA has had four EEP proposals for vegetable oil exports to Algeria, Morocco, Tunisia, and Turkey that have been approved by the USDA, but they have been sitting at the interagency review level of the administration for months. Although we understand the reason for the delay, we still strongly believe that the EEP is being underutilized for vegetable oils.

I hope this testimony and the accompanying information has been helpful to the subcommittee. I cannot stress enough, both as chairman of the NSPA and as CEO of the AGP cooperative, how important it is we find a solution to this problem. We must begin with our soybean program and for this reason I commend the chairman for holding this hearing. We must look to the long term and if that means short-term sacrifices, it is worth the effort because I think there is tremendous opportunity. I am very concerned that the legacy of the last two decades of this century will be that we lost the most efficient soybean industry in the world to foreign competitors. The reason will not be because we could not compete, but that we were not allowed to compete.

Thank you, Mr. Chairman, and I would be glad to answer any questions.

[The prepared statement of Mr. Lindsay follows:]

TESTIMONY OF JAMES W. LINDSAY
CHAIRMAN
OF THE
NATIONAL SOYBEAN PROCESSORS ASSOCIATION
CEO of AG PROCESSING INC
OMAHA, NEBRASKA
BEFORE THE
AGRICULTURAL PRODUCTION AND STABILIZATION
OF
PRICES SUBCOMMITTEE OF THE SENATE AGRICULTURE,
NUTRITION, AND FORESTRY COMMITTEE
CHAIRMAN SENATOR JOHN MELCHER
JUNE 25, 1987

MR. CHAIRMAN, I WOULD LIKE TO THANK YOU FOR GIVING ME THIS OPPORTUNITY TO TESTIFY BEFORE YOUR SUBCOMMITTEE TODAY REGARDING THIS IMPORTANT ISSUE. MY NAME IS JAMES LINDSAY, CHAIRMAN OF THE NATIONAL SOYBEAN PROCESSORS ASSOCIATION (NSPA), AND THE CEO AND GENERAL MANAGER OF AG PROCESSING INC. (AGP) HEADQUARTERED OUT OF OMAHA, NEBRASKA. TODAY, I AM REALLY WEARING TWO HATS. IN MY CAPACITY AS THE CEO OF AGP I REPRESENT THE LARGEST FARMER OWNED SOYBEAN PROCESSING COMPANY IN THE WORLD. AGP IS OWNED BY 322 LOCAL COOPERATIVE ASSOCIATIONS REPRESENTING 270,000 FARMERS FROM 10 DIFFERENT STATES INCLUDING: IOWA, WISCONSIN, MINNESOTA, MISSOURI, NEBRASKA, NORTH DAKOTA, SOUTH DAKOTA, ARKANSAS, OKLAHOMA, AND KANSAS. OUR BUSINESS IS ALMOST COMPLETELY DEPENDENT UPON SOYBEAN PROCESSING WITH 8 PLANTS HAVING A DAILY CRUSHING CAPACITY OF 420,000 BUSHELS. SINCE WE DO NOT HAVE THE DIVERSITY OR INTERNATIONAL INVESTMENTS THAT OTHER COMPANIES MAY HAVE, WE ARE PARTICULARLY SENSITIVE TO POLICIES MADE HERE IN WASHINGTON.

IN MY OTHER ROLE TODAY, AS CHAIRMAN OF THE NSPA, I AM REPRESENTING THE LARGEST CUSTOMER OF U.S. SOYBEAN GROWERS. THE NSPA IS MADE UP OF 13 MEMBERS WHO OWN PLANTS IN 21 STATES AND REPRESENT 85% OF THE DOMESTIC SOYBEAN CRUSH. WE ALSO HAVE ANOTHER 22 ASSOCIATE MEMBERS WHO ARE DIRECTLY IMPACTED BY U.S. SOYBEAN POLICIES. IN ADDITION, YOU MAY BE INTERESTED TO KNOW THAT APPROXIMATELY 25% OF THE NSPA MEMBERS ARE COOPERATIVES.

IN RECENT YEARS THE SOYBEAN PROCESSING INDUSTRY HAS EXPERIENCED A TREMENDOUS REDUCTION IN ITS SHARE OF AN EVER INCREASING WORLD MARKET. ATTACHED TO MY TESTIMONY YOU WILL FIND A NUMBER OF TABLES, GRAPHS AND CHARTS WHICH DEMONSTRATE WHAT HAS HAPPENED TO THE U.S. IN WORLD

OILSEED PRODUCTION, CRUSH AND EXPORTS. I KNOW THAT FIGURES AND GRAPHS CAN SOMETIMES BE CONFUSING BUT I WOULD LIKE TO POINT OUT A NUMBER OF THINGS THAT YOU WILL FIND IN THE ATTACHED CHARTS.

THE FIRST TABLE SHOWS THE CHANGE OF WORLD OILSEED PRODUCTION BETWEEN 1979-80 AND 1985-86. AS YOU CAN SEE THE CHANGE HAS BEEN RATHER DRAMATIC WITH AN INCREASE OF OVER 24.5 MILLION METRIC TONS (MMT). BY LOOKING AT THE CHART WHICH IS ATTACHED TO TABLE 1 IT IS OBVIOUS THAT THE U.S. SOYBEAN FARMER HAS BEEN LEFT OUT OF THIS GROWTH TREND, IN FACT, U.S. SOYBEAN PRODUCTION HAS DROPPED 4.6 MMT DURING THIS SAME PERIOD.

THE SECOND TABLE AND THE ACCOMPANYING CHART SHOWS A SIMILAR TREND HAS OCCURRED IN THE WORLD OILSEED CRUSH. WHILE WORLD CRUSH HAS INCREASED 24.4 MILLION METRIC TONS, U.S. SOYBEAN CRUSH HAS DROPPED 2 MMT.

DURING A TIME WHEN THE U.S. TRADE DEFICIT IS AT A RECORD HIGH WE FIND THAT THE U.S. IS DOING VERY LITTLE TO PREVENT A CONTINUING SLIDE IN THE EXPORTATION OF SOYBEANS, SOYBEAN OIL AND SOYBEAN MEAL. THE THIRD, FOURTH, AND FIFTH TABLES AND THEIR ACCOMPANYING CHARTS BAR THIS OUT. WHILE THE WORLD NET EXPORTS OF OILSEEDS HAVE DROPPED 2.2 MMT BETWEEN 1979-80 AND 1985-86 THE U.S. HAS EVEN DONE WORSE BY DROPPING OVER 3.5 MMT OF SOYBEAN EXPORTS AS SHOWN ON TABLE THREE. TABLE 4 SHOWS THAT NET EXPORTS OF WORLD EDIBLE OILS AND FATS HAVE INCREASED 4.1 MMT SINCE 1979-80 WHILE U.S. SOYBEAN OIL EXPORTS DROPPED .6 MMT. TABLE 5 TELLS A SIMILAR STORY REGARDING WORLD OILMEAL NET EXPORTS WHICH INCREASED 6.3 MMT WHILE U.S. SOYBEAN MEAL EXPORTS DROPPED 1.6 MMT.

TABLES 6, 7, AND 8 DESCRIBE IN EVEN MORE DETAIL THE DRAMATIC DROP IN THE U.S.'S PARTICIPATION IN PRODUCTION, CRUSHING AND EXPORTING OF SOYBEANS, SOYBEAN OIL AND

SOYBEAN MEAL. AS YOU CAN SEE, THE U.S.'S SHARE OF THE WORLD MARKET HAS DROPPED IN EVERY CATEGORY. U.S. SHARE OF WORLD OILSEEDS PRODUCTION HAS DROPPED BY 7% WHILE WORLD PRODUCTION INCREASED 15%. U.S. SHARE OF THE WORLD OILSEEDS CRUSH DROPPED 5% WHILE WORLD OILSEEDS CRUSH INCREASED 19%. U.S. SHARE OF WORLD OILMEALS PRODUCTION AND EXPORTS DROPPED 6% AND 15% RESPECTIVELY WHEN THE WORLD EXPANDED BY 18% AND 31%. THE MOST DRAMATIC OF ALL IS THE PRODUCTION AND EXPORTING OF WORLD EDIBLE OILS AND FATS WHICH INCREASED 26% AND 38% RESPECTIVELY BUT THE U.S. SHARE DROPPED 2% AND 7%. AS TABLE 9 SHOWS, A LARGE PART OF THIS U.S. SOYBEAN OIL EXPORT DROP HAS BEEN PICKED UP BY ARGENTINA THROUGH THE USE OF UNFAIR TRADE PRACTICES.

TABLE 10 AND THE ACCOMPANYING CHARTS AND GRAPHS SHOW IN GRAPHIC DETAIL THE DECLINE IN U.S. SOYBEAN OIL EXPORTS. THE UNASSISTED EXPORTING OF SOYBEAN OIL IS VIRTUALLY NONEXISTENT. ABOUT 90% OF U.S. SOYBEAN OIL EXPORTS ARE NOW ASSISTED IN SOME WAY BY THE USDA WHEN JUST 7 YEARS AGO ONLY 27% WERE ASSISTED. THE BOTTOM LINE IS THAT IF IT WASN'T FOR THE USDA'S PL 480 AND GSM CREDIT PROGRAMS WE WOULD NOT EVEN BE A PLAYER IN THE WORLD OIL MARKET.

THE NEXT FEW TABLES ILLUSTRATE COUNTRY BY COUNTRY, WHAT HAS HAPPENED TO OILSEEDS PRODUCTION, CRUSH AND EXPORTS. THE LAST TABLE SHOWS THE SITUATION REGARDING SOYBEAN PRICES AND ENDING STOCKS. OF PARTICULAR INTEREST SHOULD BE THE GOVERNMENT CONTROLLED PORTION OF THE STOCKS.

HAVING DEFINED THE PROBLEM, THE NEXT NATURAL QUESTION IS: WHY DOES THIS SITUATION EXIST? IS IT BECAUSE U.S. SOYBEAN FARMERS AND PROCESSORS CAN'T COMPETE? THE ANSWER TO THE SECOND QUESTION IS AN EMPHATIC NO! THE U.S. SOYBEAN FARMERS AND PROCESSORS ARE THE CREAM OF THE CROP IN WORLD COMPETITION. WE ARE THE LOWEST COST PRODUCERS, TRANSPORTERS, MARKETERS AND PROCESSORS ANYWHERE IN THE

WORLD. BASED ON THE VARIABLE COST OF PRODUCTION OUR FARMERS CAN OUT PRODUCE ANYONE ANYWHERE. WE LEAD IN COMPARATIVE ADVANTAGE!

SO WHAT'S THE PROBLEM? FIRST AND FOREMOST ARE OUR COMMODITY PROGRAMS. THE U.S. SOYBEAN PROGRAM HAS SENT A SIGNAL TO THE WORLD THAT OTHER COUNTRIES SHOULD PRODUCE OILSEEDS AND WE WILL VIRTUALLY GUARANTEE THEM A PRICE OR WE WILL BUY ALL THE EXCESS SOYBEANS AND STORE THEM AT OUR EXPENSE. AT THE SAME TIME OUR WHEAT AND FEED GRAINS PROGRAMS HAVE TOLD THEM JUST THE OPPOSITE. DOMESTICALLY THE SITUATION IS REVERSED. TRADITIONALLY WHEN THERE IS A CORN TO SOYBEAN RATIO OF 2.5:1 WE EXPERIENCE A DECREASE IN SOYBEAN PRODUCTION. THIS SPRING, FOR EXAMPLE, WE HAD A CORN TO SOYBEAN RATIO OF 3.5:1. THEREFORE, FARMERS HAVE BEEN ENTICED TO PLANT WHEAT AND FEED GRAINS ACREAGE FOR THE COMMODITY PROGRAMS WHICH IN A LARGE PART HAS BEEN PULLED FROM SOYBEAN ACREAGE. THIS IS ALL AT A TIME WHEN WORLD PROTEIN MEAL USAGE HAS GROWN 3.4% ANNUALLY AND WORLD VEGETABLE OIL DEMAND HAS GROWN 4% ANNUALLY WHICH IS NEARLY TWICE THE RATE OF GROWTH IN WORLD GRAIN USAGE.

IF YOU PUT THE AMERICAN TAXPAYER IN A ROOM AND DESCRIBED THIS SITUATION HE WOULD CREATE A PROGRAM THAT IS EXACTLY OPPOSITE OF THE ONE WE HAVE NOW. UNFORTUNATELY, THE WORLD SEES ALL THIS OPPORTUNITY AND IS GOING FOR IT WHILE WE, THE MOST COMPETITIVE SOYBEAN INDUSTRY IN THE WORLD, ARE FORCED BY U.S. GOVERNMENT POLICIES TO STAND OUTSIDE THE RING, UNABLE TO FIGHT FOR OUR MARKETS.

ANOTHER CAUSE OF THE PRESENT PROBLEM IS THE USE OF UNFAIR TRADE PRACTICES BY OTHER COUNTRIES. A NUMBER OF DIFFERENT COUNTRIES HAVE IMPLEMENTED PROGRAMS TO EXPAND PRODUCTION AND/OR GIVEN INCENTIVES TO PRODUCERS AND PROCESSORS. IN TESTIMONY BEFORE THE INTERNATIONAL TRADE COMMISSION ON APRIL 28TH THE NSPA BRIEFLY OUTLINED A NUMBER OF TRADE PRACTICES USED BY BRAZIL, MALAYSIA, ARGENTINA, SPAIN, PORTUGAL AND CANADA. IN ADDITION, THE NSPA DESCRIBED THE ACCELERATING THREAT OF THE EUROPEAN COMMUNITIES POLICIES. I WILL NOT GO INTO DETAIL ABOUT THESE POLICIES BECAUSE THAT IS NOT THE PURPOSE OF THIS HEARING BUT THAT INFORMATION ALONG WITH A BRIEF DESCRIPTION OF THE IMPACT OF THE LDC DEBT SITUATION IS AVAILABLE AS AN APPENDIX I TO MY TESTIMONY FOR ANYONE WHO MAY BE INTERESTED.

WHAT ARE THE DANGERS IF WE CONTINUE ON THIS COURSE? FIRST, SOYBEAN PRODUCTION AND PROCESSING WILL CONTINUE TO DETERIORATE. SINCE 1979 U.S. SOYBEAN PLANTED ACREAGE HAS DECLINED 11 MILLION ACRES OR ABOUT 19%. THIS ACREAGE HAS BEEN PICKED UP ALMOST TO THE ACRE BY OUR COMPETITORS. ARGENTINA AND BRAZIL, FOR EXAMPLE, HAVE INCREASED PLANTED ACREAGE BY MORE THAN 15 MILLION ACRES SINCE 1979 AND SOURCES TELL US THAT THEY ARE LOOKING TO EXPAND ANOTHER 25% TO 30% JUST IN THE 1987-88 CROP YEAR.

IN ADDITION, DURING THE LAST THREE YEARS, FOUR COOPERATIVES AND TWO MAJOR CORPORATIONS HAVE LEFT THE SOYBEAN PROCESSING BUSINESS, NINE PROCESSING PLANTS HAVE CLOSED PERMANENTLY, AND 28 PROCESSING PLANTS HAVE BEEN SOLD, OR ARE NOW FOR SALE. I SHOULD NOTE THAT ALREADY THIS YEAR 5 SOYBEAN PROCESSING PLANTS IN IOWA, ILLINOIS, ARKANSAS, AND OHIO HAVE EITHER BEEN CLOSED OR DISMANTLED, AND AT LEAST ONE MORE HAS ALREADY BEEN SCHEDULED TO CLOSE WITHIN THE NEXT FEW MONTHS. ONE OF OUR MEMBERS DID SOME ESTIMATES THAT SHOW IF THINGS DON'T CHANGE U.S. SOYBEAN PLANTINGS COULD DROP ANOTHER 2-3 MILLION ACRES PER YEAR IN EACH OF THE NEXT TWO YEARS. THIS WOULD RESULT IN A DROP OF 20% IN DOMESTIC SOYBEAN CRUSH AND SOYBEAN MEAL EXPORTS WOULD BE DOWN BY TWO-THIRDS. REMEMBER, THIS IS ALL AT A TIME WHEN WORLD USAGE OF MEAL AND OIL IS GROWING AT A RATE OF 3% TO 4% PER YEAR.

THE MOST INTIMIDATING DANGER IS WHAT THE WORLD WILL BE DOING IF WE CONTINUE OUR PRESENT POLICIES. THE PRESENT SOYBEAN PROGRAM ALLOWS OUR SOUTH AMERICAN COMPETITORS TO SELL THEIR PRODUCT ON THE WORLD MARKET FOR A GUARANTEED PROFIT WITHOUT FEAR OF U.S. COMPETITION AND THEN TO USE THOSE PROFITS TO DEVELOP THEIR PRODUCTION, TRANSPORTATION, MARKETING, AND PROCESSING INFRASTRUCTURE. ONCE THAT INFRASTRUCTURE IS BUILT IT WILL BE VERY DIFFICULT TO EVER GET THEM OUT OF THE MARKET. THE GAP BETWEEN RISING DEMAND AND SHRINKING U.S. PRODUCTION CREATES AN OPPORTUNITY FOR SOUTH AMERICA TO INCREASE THEIR CROP BY ABOUT 40% OR 36 MILLION TONS OVER THE NEXT THREE YEARS, FREE FROM U.S. COMPETITION. ALONG WITH THAT GOES THE EXPANSION OF PROCESSED PRODUCTS AND EXPORTS. BRAZIL, FOR EXAMPLE, ALREADY HAS MORE CRUSHING CAPACITY THAN THEY HAVE PRODUCTION CAPABILITY SO IT WILL BE VERY EASY FOR THEM TO CONTINUE TO PUSH THE U.S. OUT OF THE MARKETPLACE UNLESS SOMETHING IS DONE SOON.

TO PUT IT ANOTHER WAY, THE U.S. TODAY HAS THE LOWEST VARIABLE COSTS OF ANYWHERE IN THE WORLD. THE PER UNIT COSTS FOR US TO EXPAND PRODUCTION AND PROCESSING IS VERY LOW BECAUSE THE INVESTMENT HAS ALREADY BEEN MADE AND THE INFRASTRUCTURE IS THERE (IE. TRANSPORTATION FACILITIES, PROCESSING PLANTS, MARKETING CHANNELS, FARM LAND, ETC.). WE COULD EASILY MEET THE EXPANDING WORLD DEMAND. FOR MANY OTHER COUNTRIES, HOWEVER, THE JOB IS NOT SO EASY. IN ORDER FOR THEM TO EXPAND TO MEET DEMAND THEY NEED TO CLEAR NEW AREAS FOR PRODUCTION, BUILD TRANSPORTATION LINES, AND INVEST IN INCREASING PROCESSING CAPACITY. THE COSTS TO DO ALL THIS ARE SUBSTANTIAL. AS I DESCRIBED EARLIER, HOWEVER, THEY ARE MAKING THE INVESTMENT, WHICH SHOULD TELL US SOMETHING ABOUT THE MARKET POTENTIAL BUT EVEN MORE IMPORTANTLY IT SHOULD SEND US A SIGNAL THAT WE NEED TO ACT QUICKLY. ONCE THEY ARE IN THE MARKET THEIR VARIABLE COSTS WILL BE COMPETITIVE TO OURS AND THEIR INCENTIVE TO STAY IN BUSINESS WILL BE UP.

ANOTHER CONSEQUENCE OF STAYING ON THE SAME COURSE IS THAT THE U.S. WILL CONTINUE TO BE THE RESIDUAL SUPPLIER OF WORLD SOYBEANS AND THEIR PRODUCTS. ALREADY IN 1987 THE U.S. WILL CARRY OVER 16 MILLION TONS OF SOYBEANS INTO THE NEXT CROP YEAR WHICH IS EQUIVALENT TO 60% OF THE ENTIRE SOUTH AMERICAN CROP. THE U.S. TAXPAYER WILL BE PAYING FOR MOST OF THESE STOCKS AND THEIR STORAGE AND MAINTENANCE COSTS THROUGH GOVERNMENT PROGRAMS. IN ADDITION TO THE LARGEST SOYBEAN STOCKS ON RECORD WE ARE ALSO EXPERIENCING THE LARGEST SOYBEAN OIL STOCKS ON RECORD. ON SEPTEMBER 1, 1987, THE U.S. WILL BE CARRYING OVER 1,900,000,000 POUNDS OF SOYBEAN OIL. OUR STORAGE CAPACITY IS ALMOST COMPLETELY FULL.

SO WHAT IS THE SOLUTION? VERY SIMPLY THE SOLUTION IS TO ALLOW OUR SOYBEANS, AND THEIR PRODUCTS, TO COMPETE FREELY ON THE WORLD MARKET. THIS SHOULD NOT BE DONE, HOWEVER, WITHOUT PROVIDING SOME INCOME PROTECTION FOR FARMERS. WE CANNOT EXPECT OUR FARMERS TO COMPETE DIRECTLY AGAINST FOREIGN GOVERNMENT'S TREASURIES. IN ADDITION, WITH THE WORLD MARKET WHERE IT IS TODAY PRICES WOULD GO DOWN INITIALLY WHICH WOULD BE AN INCENTIVE FOR OUR FARMERS TO PLANT EVEN FEWER SOYBEANS. THIS IS THE EXACT OPPOSITE OF WHAT WE WANT TO HAPPEN. SOYBEAN FARMERS WANT THE GOVERNMENT OUT OF THEIR BUSINESS, AT LEAST THE 270,000 FARMERS WHO ARE INDIRECTLY MY BOSS AS OWNERS OF AGP, BUT THEY ALSO RECOGNIZE THAT IT WILL TAKE TIME TO LOWER THE BARRIERS WORLDWIDE THAT ARE UNFAIRLY CUTTING THEM OUT OF THEIR SHARE OF THE MARKET. BY FORCING OTHER COUNTRIES TO MAKE DECISIONS BASED ON MARKET CONDITIONS AND NOT U.S. COMMODITY PROGRAMS WE WILL BE SENDING A SIGNAL TO THE WORLD THAT WE ARE NOT GOING TO SUBSIDIZE THEIR EXPANSION AND THE BUILDING OF THEIR INFRASTRUCTURE SO THEY CAN COMPETE MORE EFFECTIVELY WITH US IN THE FUTURE.

WHAT DECISIONS NEED TO BE MADE? FIRST, THE MANDATED AUTHORITY OF THE 1985 FARM BILL LEFT THE SOYBEAN COMPLEX OUT IN THE COLD. WHILE OTHER COMMODITY PROGRAMS WERE GIVEN FLEXIBILITY AND ALLOWED TO ADJUST TO MARKET CONDITIONS, THE SOYBEAN PROGRAM IS VERY RIGID AND VIRTUALLY NO MARKETING VEHICLES EXIST. EITHER THE 1985 FARM BILL NEEDS TO BE CHANGED TO MANDATE SOME SORT OF VEHICLE WHEREBY SOYBEANS CAN COMPETE ON THE WORLD MARKET AND FARMER INCOME PROTECTED OR PRESENT ADMINISTRATIVE AUTHORITY NEEDS TO BE EXERCISED. AGAIN, I NEED TO STRESS THAT OUR POLICIES MUST BE AIMED AT LONG-TERM SOLUTIONS TO OUR COMPETITIVENESS PROBLEM AND MUST BE CONSISTENT FROM YEAR TO YEAR.

SECOND, WE NEED TO MORE AGGRESSIVELY FIGHT UNFAIR TRADE PRACTICES OF OTHER COUNTRIES. AS I MENTIONED EARLIER, I WON'T GO INTO A GREAT DEAL OF DETAIL ON THIS BECAUSE THAT IS NOT THE PURPOSE OF THIS HEARING. I WOULD LIKE TO NOTE, HOWEVER, THAT WE, AS AN INDUSTRY, ARE DOING OUR PART. THE NSPA HAS FILED A COUPLE OF SECTION 301 CASES AND SPENT OVER A MILLION DOLLARS FIGHTING AGAINST UNFAIR TRADE PRACTICES OF SEVERAL COUNTRIES, CHIEF OF WHICH IS ARGENTINA. OUR INVESTMENT, HOWEVER, IS ONLY WELL SPENT WHEN THE U.S. GOVERNMENT STANDS BEHIND US WHEN THE GOING GETS TOUGH. I WOULD LIKE TO THANK MEMBERS OF THE SENATE FOR THEIR ACTIVE EFFORTS CONCERNING THE EC FATS AND OILS TAX BUT ALSO REMIND YOU THAT THE DECISION HAS STILL NOT BEEN MADE AND IT IS CRITICAL THAT THE U.S. KEEP THE PRESSURE ON THE COMMUNITY.

THIRD, THE U.S. NEEDS TO FULLY UTILIZE ALL AVAILABLE EXPORT ASSISTANCE PROGRAMS. AS I MENTIONED EARLIER, WITHOUT PL 480, GSM, AND SECTION 416 PROGRAMS VIRUALLY NO OIL WOULD BE EXPORTED NOW. THIS IS NOT TO SAY THAT THE JOB IS DONE BECAUSE THE FACT IS THAT SOYBEAN OIL EXPORTS HAVE BEEN MORE THAN CUT IN HALF SINCE 1979-80. IN ADDITION, THESE PROGRAMS NEED TO BE EXPANDED TO BE MORE

AGGRESSIVE IN EXPORTING OF BOTH SOYBEAN OIL AND SOYBEAN MEAL. ONE PROGRAM THAT PARTICULARLY NEEDS TO BE ATTENDED TO IS THE EXPORT ENHANCEMENT PROGRAM (EEP). THE NSPA HAS HAD 4 EEP PROPOSALS FOR VEGETABLE OIL EXPORTS TO ALGERIA, MOROCCO, TUNISIA AND TURKEY THAT HAVE BEEN APPROVED BY THE USDA BUT HAVE BEEN SITTING AT THE INTERAGENCY REVIEW LEVEL OF THE ADMINISTRATION FOR MONTHS. ALTHOUGH WE UNDERSTAND THE REASON FOR THE DELAY, WE STILL STRONGLY BELIEVE THAT THE EEP IS BEING UNDER UTILIZED FOR VEGETABLE OILS.

I HOPE THAT THIS TESTIMONY AND THE ACCOMPANYING INFORMATION HAS BEEN HELPFUL TO THIS SUBCOMMITTEE. I CAN NOT STRESS ENOUGH, BOTH AS THE CHAIRMAN OF THE NSPA AND AS THE CEO OF THE AGP COOPERATIVE, HOW IMPORTANT IT IS WE FIND A SOLUTION TO THIS PROBLEM. WE MUST LOOK TO THE LONG-TERM AND IF THAT MEANS SHORT-TERM SACRIFICES IT IS WORTH THE EFFORT BECAUSE THERE IS TREMENDOUS OPPORTUNITY. I AM VERY CONCERNED THAT THE LEGACY OF THE LAST TWO DECADES OF THIS CENTURY WILL BE THAT WE LOST THE MOST EFFICIENT SOYBEAN INDUSTRY IN THE WORLD TO FOREIGN COMPETITORS. THE REASON WILL NOT BE BECAUSE WE COULDN'T COMPETE BUT THAT WE WEREN'T ALLOWED TO COMPETE.

THANK YOU MR. CHAIRMAN AND I WOULD BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU OR THE MEMBERS OF THE COMMITTEE MAY HAVE.

TABLE 1

WORLD OILSEED PRODUCTION (000 MT)

	79-80	85-86	Change
Rapeseed	10,074	18,550	8,476
Cottonseed	25,337	30,926	5,589
Sunflowerseed	15,476	19,760	4,284
Soybeans	93,771	96,705	2,934
Groundnuts	11,431	13,716	2,285
Palm Kernels	1,459	2,467	1,008
Copra	4,680	5,161	481
Linseed	2,920	2,542	- 378
Total	165,148	189,827	24,679

CHART 1A of TABLE 1

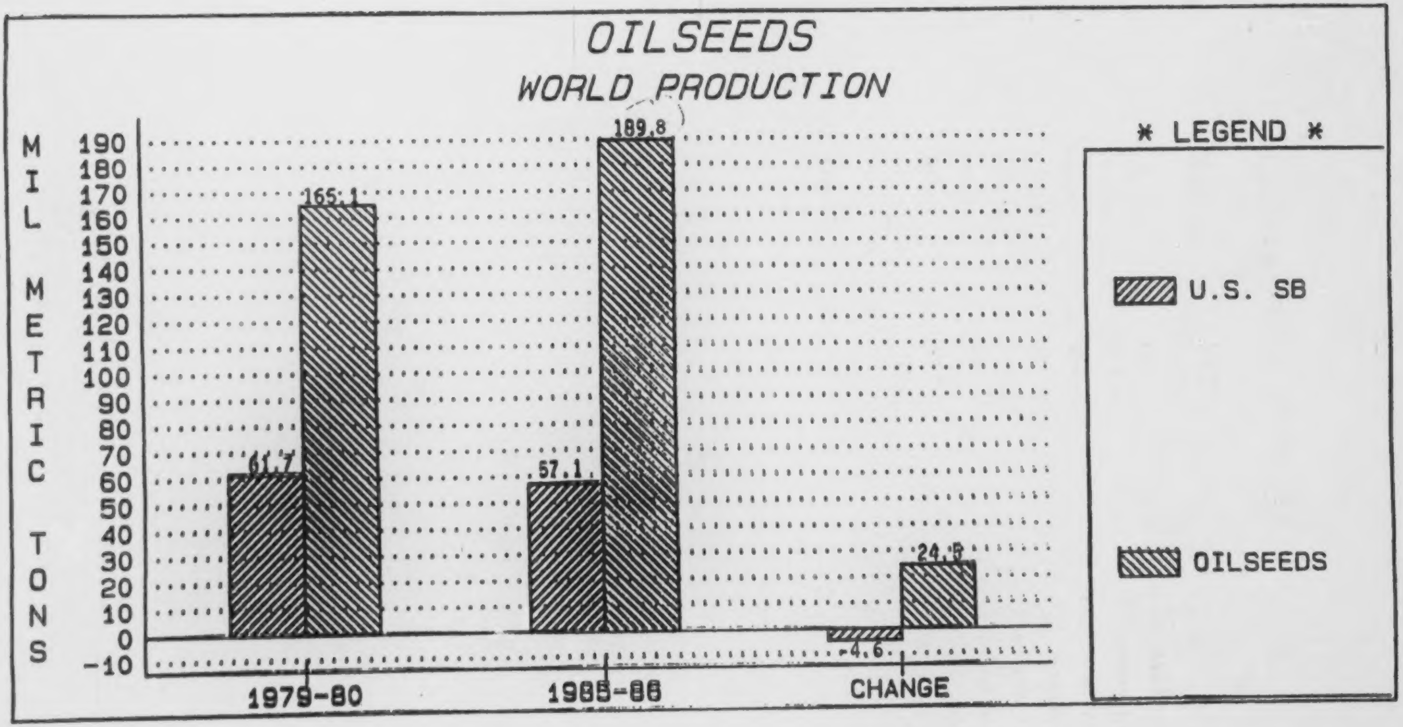


TABLE 2

WORLD OILSEED CRUSH (000 MT)

	79-80	85-86	Change
Rapeseed	9,027	16,605	7,578
Soybeans	72,851	78,795	5,944
Sunflowerseed	12,603	16,797	4,194
Cottonseed	19,640	23,600	3,960
Palm Kernels	1,409	2,427	1,018
Groundnuts	6,573	7,451	878
Copra	4,330	5,115	785
Linseed	2,072	2,070	- 2
Total	128,505	152,860	24,355

CHART 2A of TABLE 2

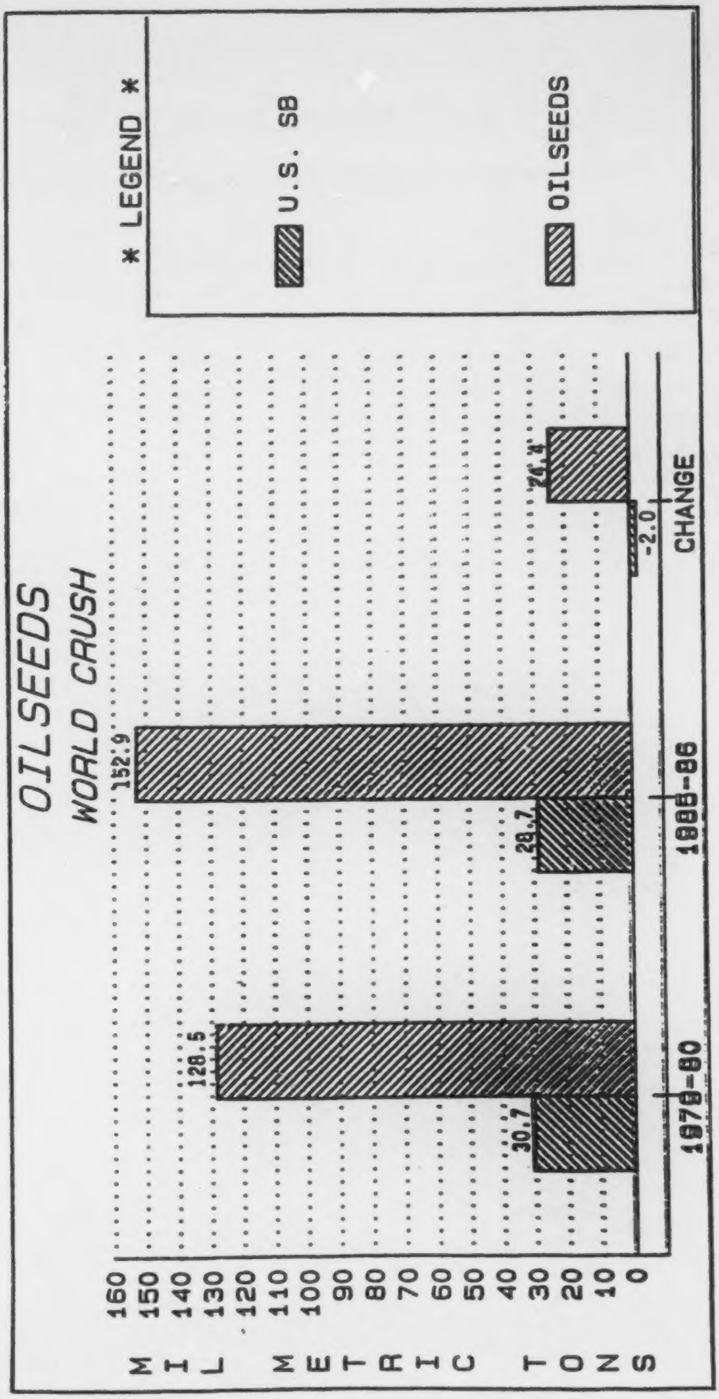


TABLE 3

WORLD OILSEED NET EXPORTS (000 MT)

	79-80	85-86	Change
Rapeseed	1,681	2,007	326
Linseed	494	671	177
Groundnuts	749	860	111
Palm Kernels	215	246	31
Copra	473	432	- 41
Cottonseed	276	233	- 43
Sunflowerseed	2,209	1,000	-1,209
Soybeans	27,746	26,218	-1,528
Total	33,843	31,667	-2,176

CHART 3A of TABLE 3

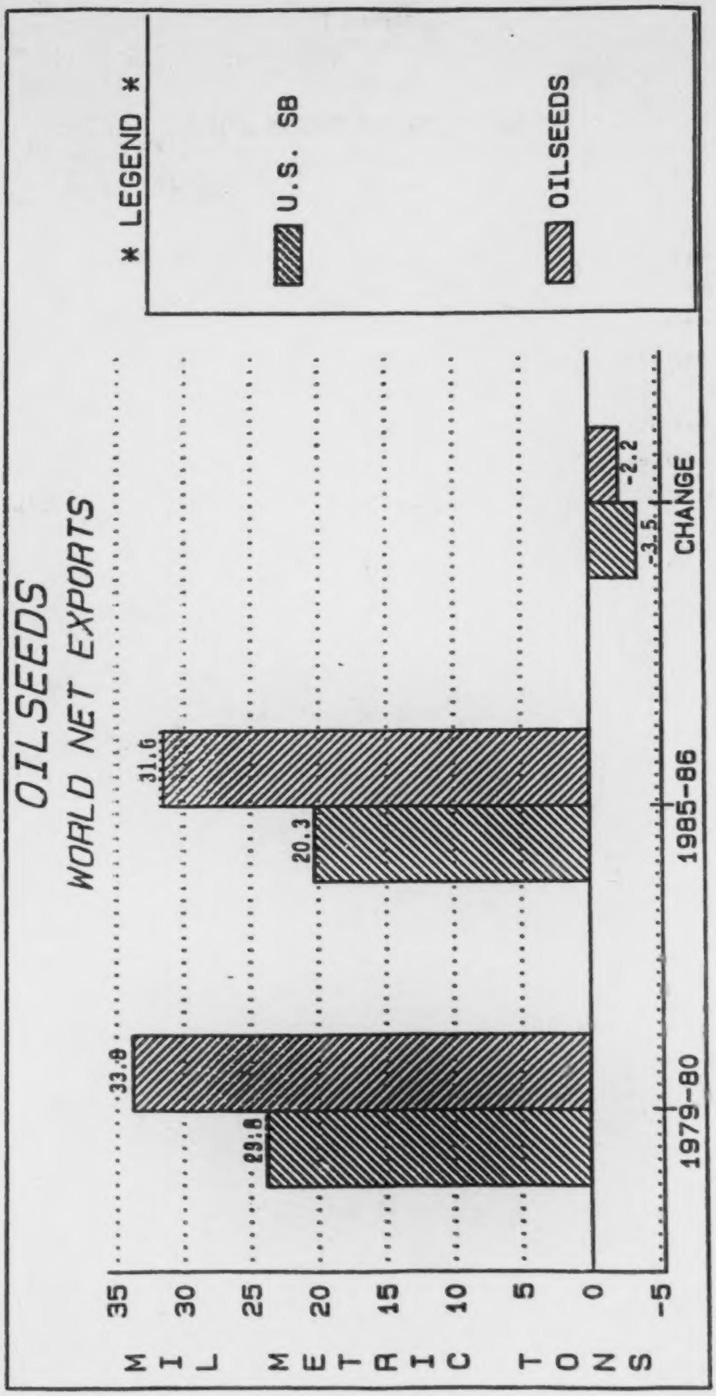


TABLE 4

WORLD EDIBLE OILS & FATS NET EXPORTS (000 MT)

	79-80	85-86	Change
Palm Oil	2,762	5,316	2,554
Sunflower Oil	764	1,551	787
Coconut Oil	1,065	1,501	436
Rapeseed Oil	471	824	353
Palm Kernel	346	655	309
Olive Oil	289	400	111
Fish Oil	655	713	58
Lard	301	249	- 52
Cotton Oil	404	347	- 57
Butter	717	609	- 108
Groundnut Oil	407	294	- 113
Soybean Oil	2,671	2,509	- 162
Total	10,852	14,968	4,116

CHART 4A of TABLE 4

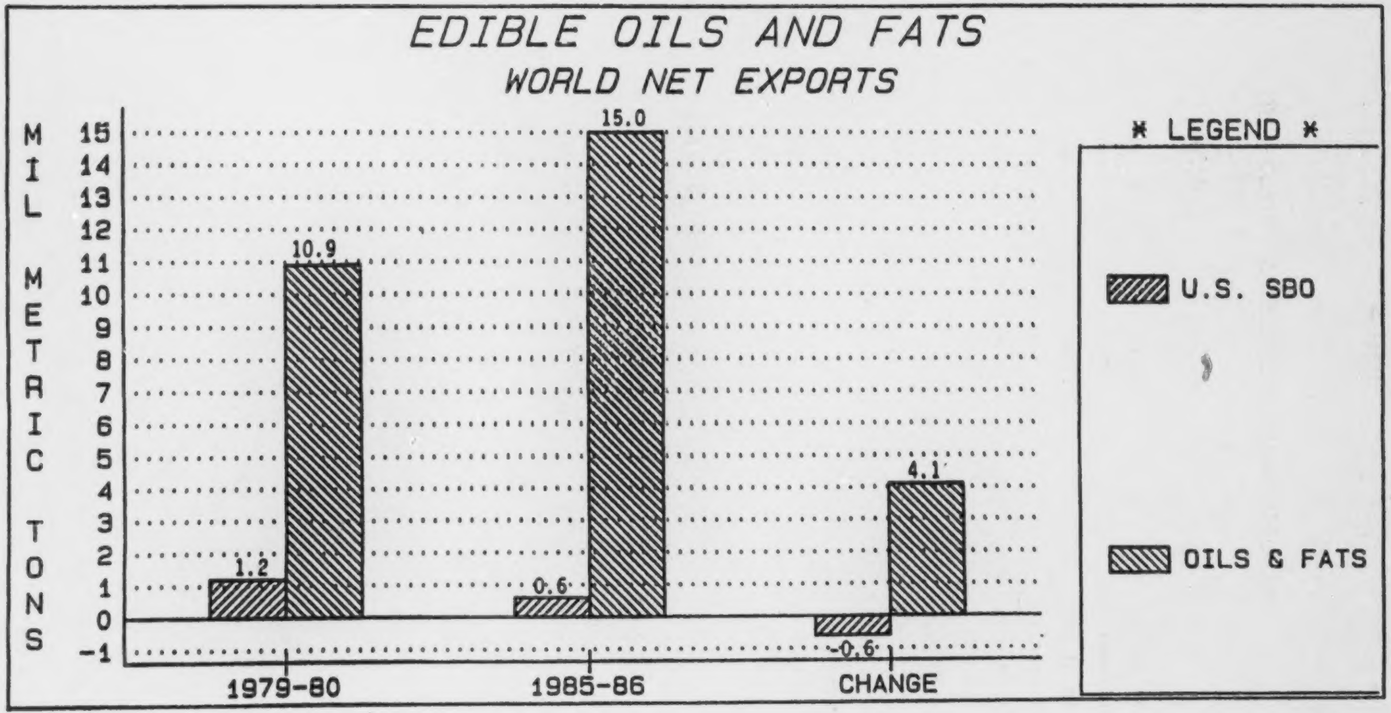


TABLE 5

WORLD OILMEALS NET EXPORTS (000 MT)

	79-80	85-86	Change
Soybean Meal	13,447	17,940	4,493
Rapeseed Meal	369	1,196	827
Sunflower Meal	739	1,439	700
Fish Meal	1,853	2,532	679
Palm Kernel Meal	466	1,018	552
Copra Meal	973	1,299	326
Linseed Meal	684	422	-262
Cottonseed Meal	841	645	-196
Groundnut Meal	1,185	433	-752
Total	20,557	26,924	6,367

CHART 5A of TABLE 5

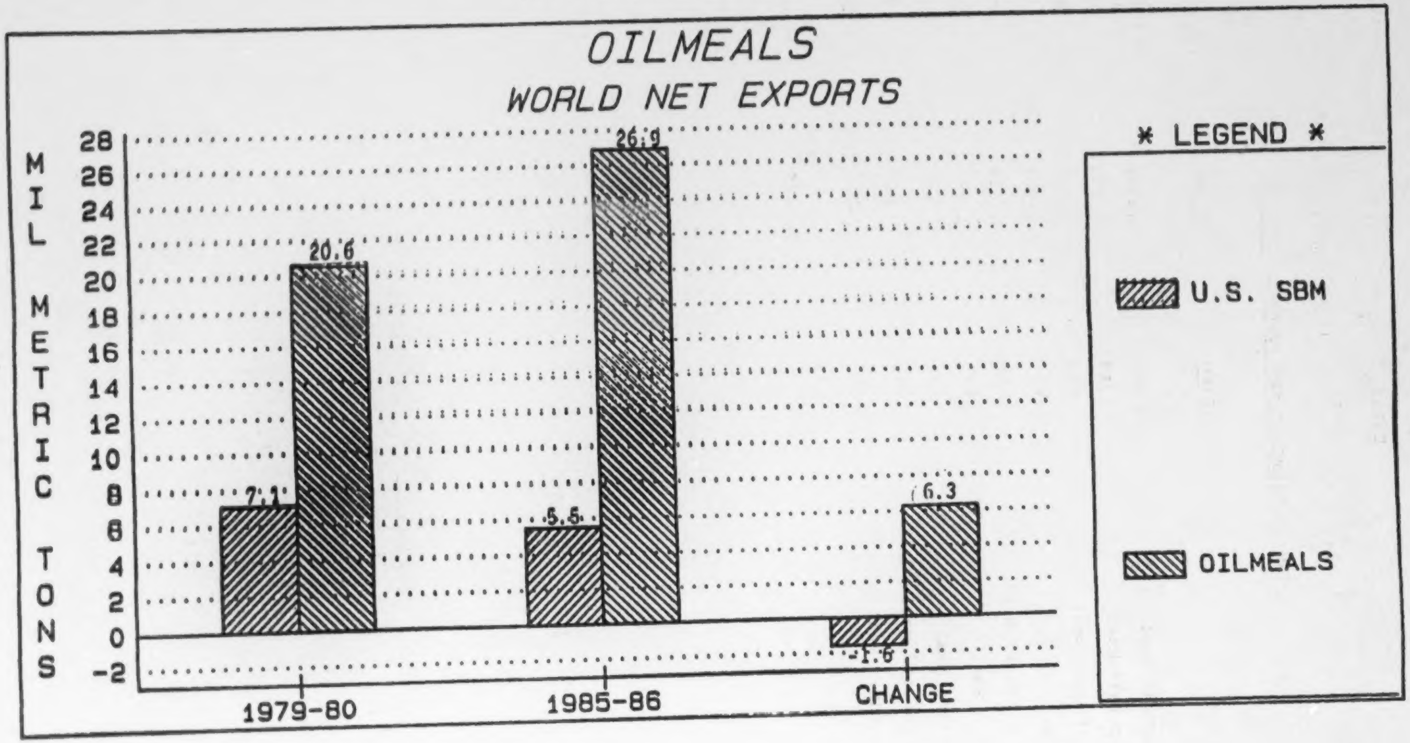


TABLE 6

U.S. SOYBEANS

CHANGES IN WORLD MARKET SHARE
(mil MT)

	1979-80	1985-86	Change Vol	Change Pct
Production:				
World Soybeans	93.8	96.3	2.5	3%
U.S. Soybeans	61.7	57.1	- 4.6	- 7%
U.S. Share	66%	59%		- 7%
World Oilseeds	165.1	189.6	24.5	15%
U.S. Share	37%	30%		- 7%
Crush:				
World Soybeans	72.9	78.8	5.9	8%
U.S. Soybeans	30.7	28.7	- 2.0	- 7%
U.S. Share	42%	36%		- 6%
World Oilseeds	128.5	152.9	24.4	19%
U.S. Share	24%	19%		- 5%
Net Exports:				
World Soybeans	27.7	26.2	- 1.5	- 5%
U.S. Soybeans	23.8	20.3	- 3.5	- 15%
U.S. Share	85%	77%		- 8%
World Oilseeds	33.8	31.6	- 2.2	- 6%
U.S. Share	70%	64%		- 6%

TABLE 7

U.S. SOYBEAN MEAL

CHANGES IN WORLD MARKET SHARE
(mil MT)

	1979-80	1985-86	Change	
			Vol	Pct
Production:				
World Soybean Meal	57.4	61.8	4.4	8%
U.S. Soybean Meal	24.6	22.6	- 2.0	- 8%
U.S. Share	43%	37%		- 6%
World Oilmeals	91.2	108.0	16.8	18%
U.S. Share	27%	21%		- 6%
Net Exports:				
World Soybean Meal	13.4	17.9	4.5	33%
U.S. Soybean Meal	7.1	5.5	- 1.6	-23%
U.S. Share	53%	31%		-22%
World Oilmeals	20.6	26.9	6.3	31%
U.S. Share	35%	20%		-15%

TABLE 8

U.S. SOYBEAN OIL

CHANGES IN WORLD MARKET SHARE
(mil MT)

	1979-80	1985-86	Change Vol	Change Pct
Production:				
World Soybean Oil	13.0	14.1	1.1	8%
U.S. Soybean Oil	5.5	5.3	- 0.2	- 4%
U.S. Share	42%	37%		- 5%
World Edible Oils & Fats	48.3	61.0	12.7	26%
U.S. Share	11%	9%		- 2%
Net Exports:				
World Soybean Oil	2.7	2.5	- 0.2	- 6%
U.S. Soybean Oil	1.2	0.6	- 0.6	- 53%
U.S. Share	46%	23%		- 23%
World Edible Oils & Fats	10.9	15.0	4.1	38%
U.S. Share	11%	4%		- 7%

TABLE 9

WORLD SOYBEAN OIL NET EXPORTS (000 MT)

	79-80	85-86	Change
Argentina	111	630	519
Other	97	158	61
EC-12	844	841	- 3
Brazil	399	309*	- 90
U.S.	1,220	571	- 649
Total	2,671	2,509	- 162

---

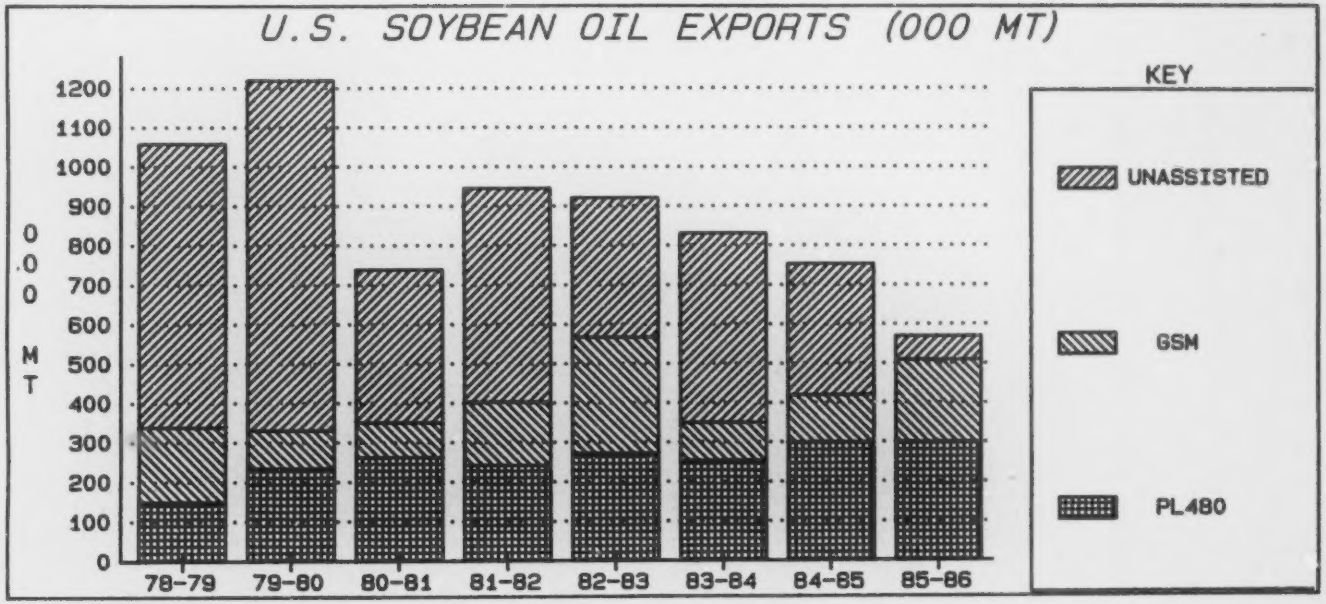
*Brazilian net exports were well below trend in 85-86 because of severe drought, reduced production, and high domestic consumption. They will increase perhaps 400,000 MT during 1986-87.

TABLE 10

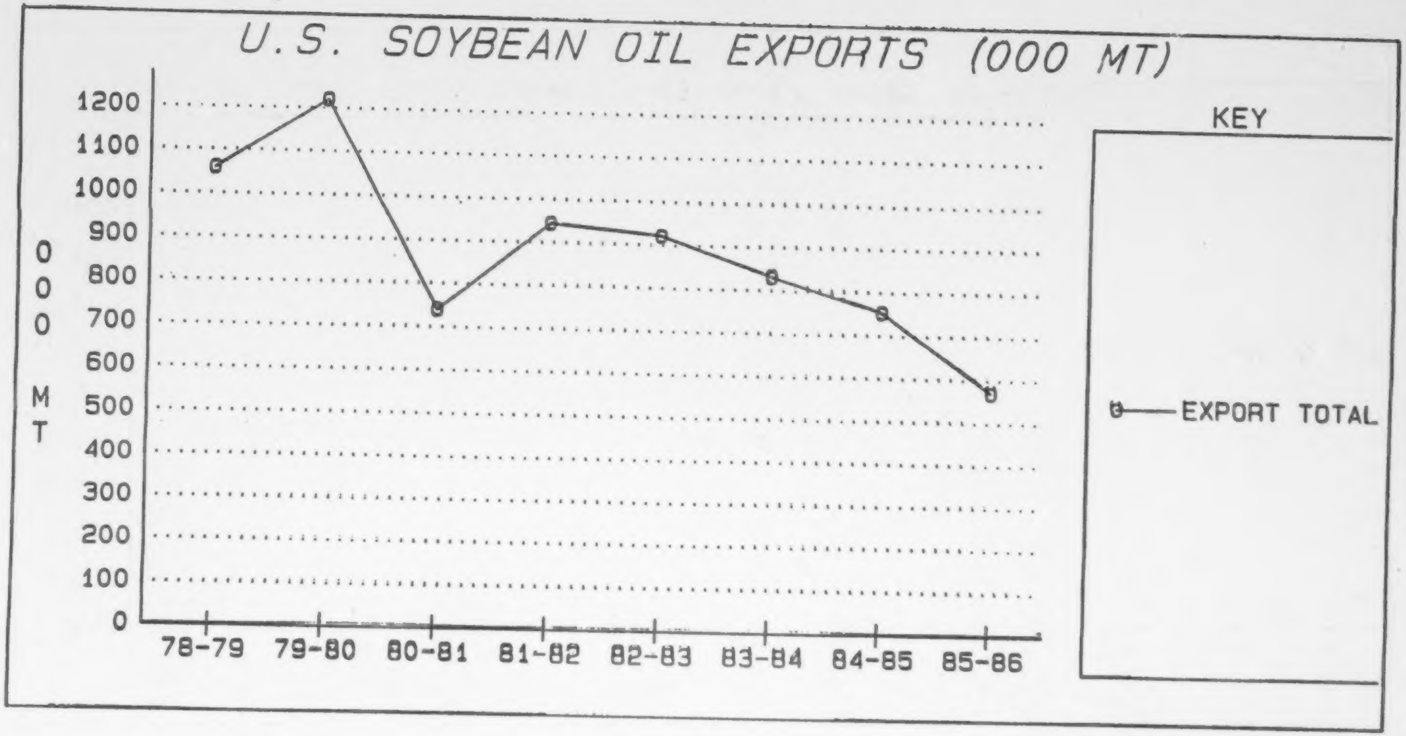
U.S. SOYBEAN OIL EXPORTS BY CATEGORY (000 MT)

	79-80	85-86	Change
PL 480	234	300	66
GSM Credit	97	209	112
Total USDA Assisted	331	509	178
Unassisted	889	62	-827
Total	1,220	571	-649

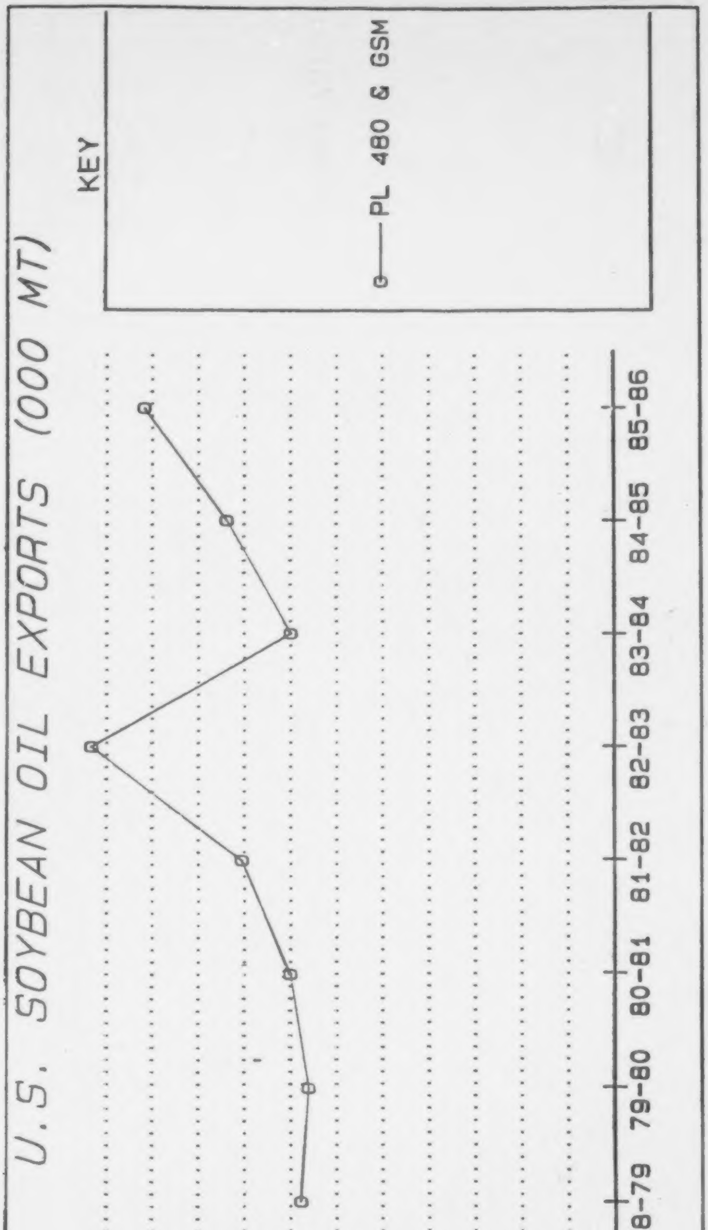
CHART 10A of TABLE 10



GRAPH 10A of TABLE 10



GRAPH 10B of TABLE 10



GRAPH 10B of TABLE 10

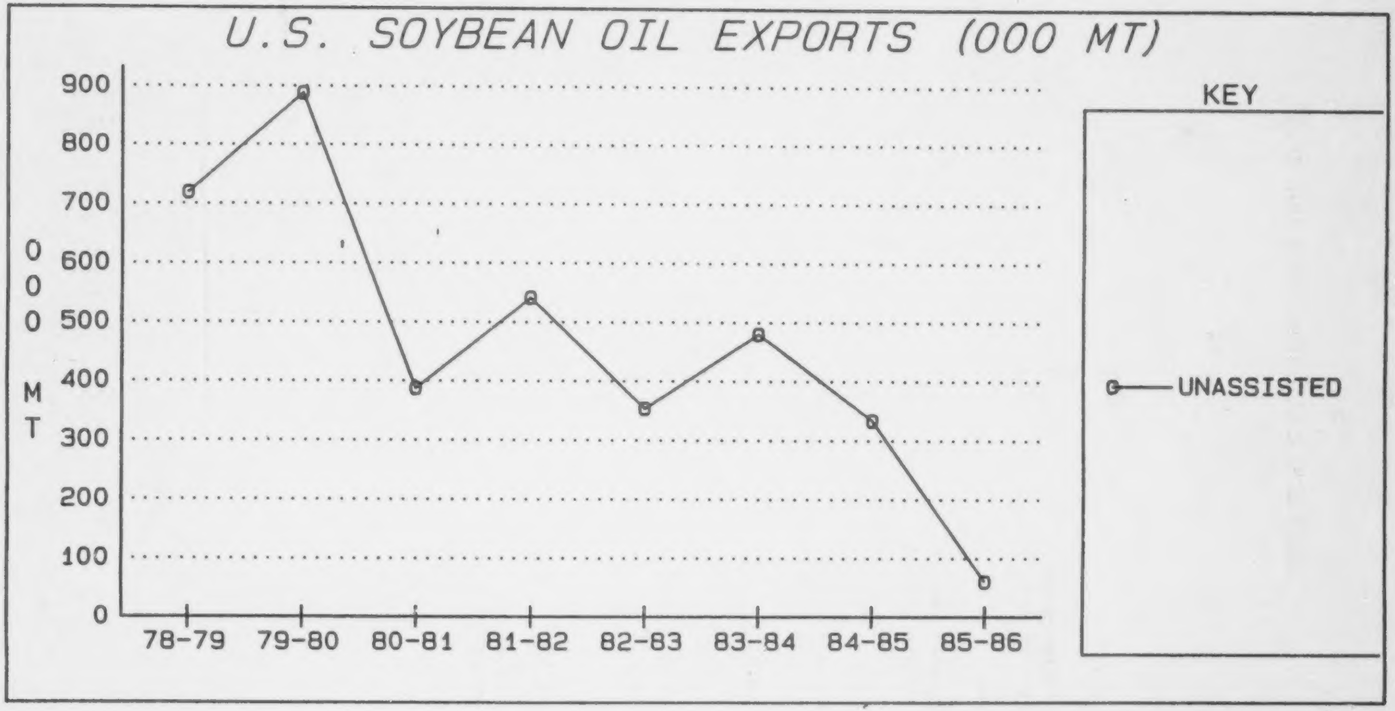


TABLE 11

SIGNIFICANT MARKET SHARE GAINS (MIL MT)

EC 12

	79-80	85-86	Change
Production:			
Sunflowerseed	0.7	2.7	2.0
Rapeseed	1.2	3.6	2.4
Total	1.9	6.3	4.4
Rapeseed Meal	1.0	2.5	1.5
Sunflower Meal	1.3	1.6	0.3
Total	2.3	4.1	1.8
Rapeseed Oil	0.7	1.6	0.9
Sunflower Oil	0.9	1.3	0.4
Total	1.6	2.9	1.3
Crush:			
Sunflowerseed	2.2	3.0	0.8
Rapeseed	1.8	3.9	2.1
Total	4.0	6.9	2.9
Net Exports:			
Rapeseed Oil	0.2	0.5	0.3
Soybean Oil	0.8	0.8	-
Total	1.0	1.3	0.3

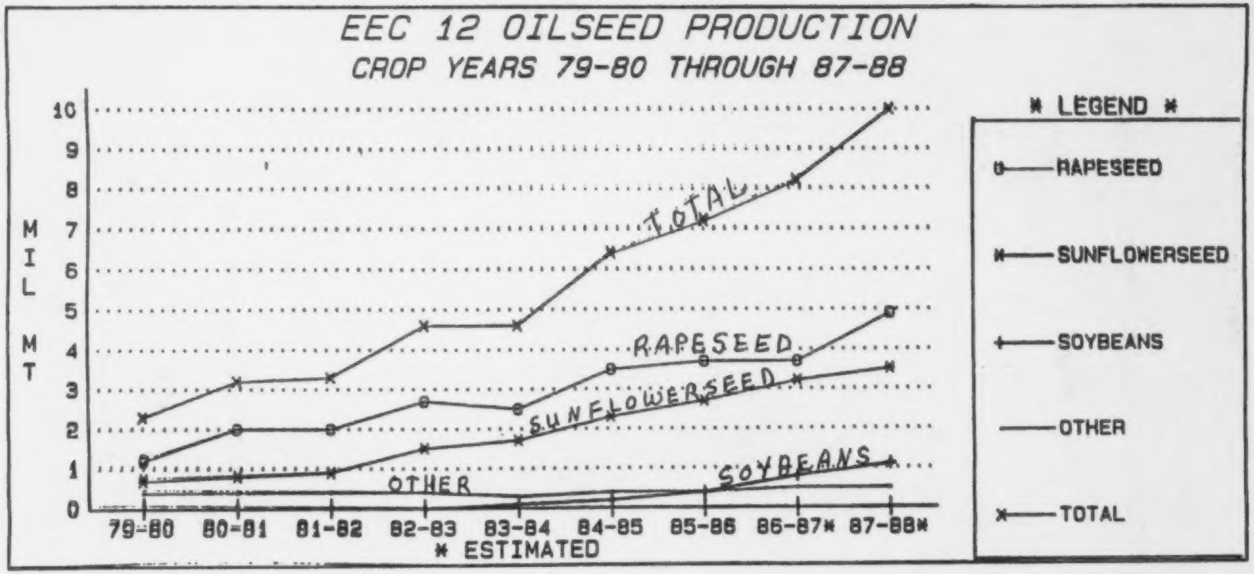
TABLE 12

EC 12 OILSEED* PRODUCTION, IMPORTS, AND CRUSH (000 MT)

	79-80	85-86	Change
Production			
Rapeseed	1,212	3,683	2,471
Sunflowerseed	604	2,738	2,134
Soybeans	38	358	320
Total	1,854	6,779	4,925
Imports			
Rapeseed	470	484	14
Sunflowerseed	1,573	343	-1,230
Soybeans	16,127	13,092	-3,035
Total	18,170	13,919	-4,251
Crush			
Rapeseed	1,751	3,909	2,158
Sunflowerseed	2,213	2,896	683
Soybeans	15,277	13,040	-2,237
Total	19,241	19,845	604

*Only rapeseed, sunflowerseed, and soybeans.

GRAPH 12A of TABLE 12



GRAPH 12B of TABLE 12

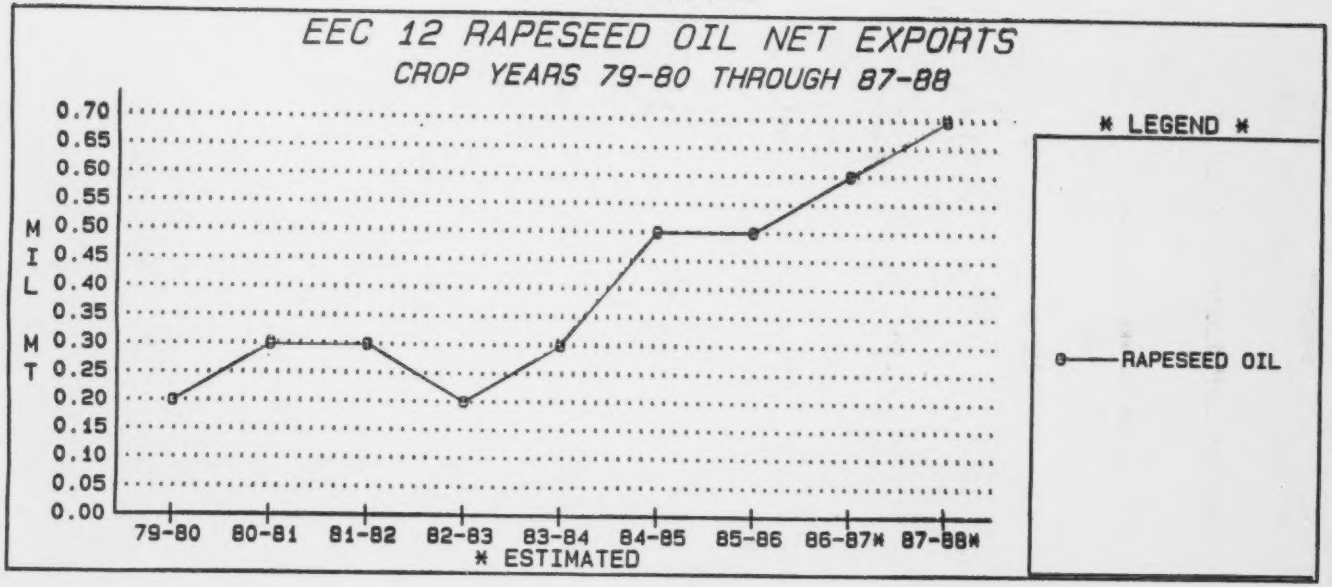


TABLE 13

SIGNIFICANT MARKET SHARE GAINS (MIL MT)

EAST AND WEST MALAYSIA

	79-80	85-86	Change
Production:			
Palm Kernels	0.6	1.4	0.8
Palm Kernel Oil	0.2	0.5	0.3
Palm Oil	2.6	4.8	2.2
Total	2.8	5.3	2.5
Crush:			
Palm Kernels	0.5	1.4	0.9
Net Exports:			
Palm Kernel Oil	0.2	0.5	0.3
Palm Oil	2.2	4.4	2.2
Total	2.4	4.9	2.5

TABLE 14

SIGNIFICANT MARKET SHARE GAINS (MIL MT)

ARGENTINA

	79-80	85-86	Change
Production:			
Soybeans	3.6	7.3	3.7
Sunflowerseed	1.7	4.2	2.5
Total	5.3	11.5	6.2
Soybean Meal	0.6	3.4	2.8
Sunflower Meal	0.8	1.5	0.7
Total	1.4	4.9	3.5
Soybean Oil	0.1	0.7	0.6
Sunflower Oil	0.6	1.3	0.7
Total	0.7	2.0	1.3
Crush:			
Soybeans	0.7	4.3	3.6
Sunflowerseed	1.8	3.3	1.5
Total	2.5	7.6	5.1
Net Exports:			
Soybeans	2.3	2.8	0.5
Sunflowerseed	—	0.4	0.4
Total	2.3	3.2	0.9
Soybean Meal	0.3	3.1	2.8
Sunflower Meal	0.7	1.3	0.6
Total	1.0	4.4	3.4
Soybean Oil	0.1	0.6	0.5
Sunflower Oil	0.3	0.9	0.6
Total	0.4	1.5	1.1

TABLE 15

SIGNIFICANT MARKET SHARE GAINS (MIL MT)

BRAZIL

	79-80	85-86	Change
Production:			
Soybean Meal	8.1	9.6	1.5
Soybean Oil	2.0	2.4	0.4
Crush:			
Soybeans	10.6	12.2	1.6
Net Exports:			
Soybean Meal	5.5	7.5	2.0

TABLE 16

SIGNIFICANT MARKET SHARE GAINS (MIL MT)

CHINA

	79-80	85-86	Change
Production:			
Soybeans	7.5	10.5	3.0
Cottonseed	4.1	7.7	3.6
Rapeseed	2.4	5.6	3.2
Groundnuts	2.0	4.7	2.7
Total	16.0	28.5	12.5
Soybean Meal	2.3	3.2	0.9
Cottonseed Meal	1.6	4.2	2.6
Rapeseed Meal	1.3	3.2	1.9
Groundnut Meal	0.6	1.8	1.2
Total	5.8	12.4	6.6
Cottonseed Oil	0.4	0.9	0.5
Groundnut Oil	0.4	1.2	0.8
Total	0.8	2.1	1.3
Crush:			
Soybeans	3.3	4.1	0.8
Cottonseed	2.6	5.9	3.3
Rapeseed	2.2	4.9	2.7
Groundnuts	2.0	3.1	1.1
Total	10.1	18.0	7.9
Net Exports:			
Soybeans	0.1	1.4	1.3
Soybean Meal	0.0	0.8	0.8
Rapeseed Meal	0.0	0.5	0.5
Total	0.0	1.3	1.3

TABLE 17

SIGNIFICANT MARKET SHARE GAINS (MIL MT)

INDONESIA

	79-80	85-86	Change
Production:			
Palm Oil	0.6	1.3	0.7
Net Exports:			
Palm Oil	0.4	0.8	0.4

TABLE 18

SIGNIFICANT MARKET SHARE GAINS (MIL MT)

INDIA

	79-80	85-86	Change
Production:			
Soybeans	0.4	1.2	0.8
Soybean Meal	0.2	0.8	0.6
Crush:			
Soybeans	0.3	1.0	0.7
Net Exports:			
Soybean Meal	0.1	0.6	0.5

TABLE 19

U.S. SOYBEAN PRICES AND ENDING STOCKS

Crop Year	Average Farm Gate Price/Bu	Ending Stocks (mil bu)			
		Free	Under Loan	Owned By CCC	Total
80-81	$7.40	252	61		313
81-82	$5.96	176	78		254
82-83	$6.10	199	121	25	345
83-84	$7.49	147	28	1	176
84-85	$5.69	160	155	1	316
85-86	$5.09	82	324	130	536
86-87(est)	$4.80	80	134	396	610

APPENDIX I

UNFAIR TRADE PRACTICES:

In April, 1983, after a year of research, the NSPA filed a global Section 301 petition with the U.S. Trade Representative which cited nine different unfair trade practices being utilized (singly, or in combination) by six countries which compete with the U.S. for world edible oil and protein meal markets. The petition was accepted, and a Section 301 investigation was initiated, except with respect to differential export taxes in Argentina and Brazil, and differential export duty exemptions in Malaysia. The excepted trade practices were subsequently discussed with Argentina, Brazil, and Malaysia on a bi-lateral basis.

In September, 1983, the National Sunflower Association filed a Section 301 petition against Argentina's differential export taxes for sunflower, sunflower oil, and sunflower meal. This petition was subsequently withdrawn without prejudice.

In December, 1985, the NSPA filed a new Section 301 petition against Argentina's differential export taxes for soybeans, soybean oil, and soybean meal. This last petition was temporarily withdrawn at the request of the Treasury Department, but was refiled in April, 1986. The refiled petition was accepted, a Section 301 investigation was initiated, and Argentina recently agreed to eliminate all agricultural export taxes by October 15, 1987.

Wherever sufficient information was available, NSPA estimated the subsidy value of the unfair trade practices cited in the 1983 petition.

The estimates were never effectively challenged. They are summarized below:

Country	Trade Practices	1983 Subsidy Value ($mil)
Brazil	Preferential export and drawback financing	$223
	All others, except income tax exemption	61
	Total	$284
Malaysia	Differential export duty exemptions	$141
Argentina	Differential export taxes	108
Spain	All	40
Portugal	Guaranteed crushing margins	33
Canada	Processing subsidy	24
Total		$630

The present status of the unfair trade practices cited in these petitions is as follows:

Country	Trade Practices	Status
Brazil	Preferential Export financing for soybean oil and meal (2 programs)	Suspended since 1984
	Preferential drawback financing	Suspended since 1983
	Preferential inventory financing	Still in effect, but subsidy reduced
	Income tax exemption on soybean oil exports	Still in effect
	Differential export taxes	Still in effect, but much less onerous than in Argentina

	Preferential clearing arrangements	Still in effect for several East European countries
Malaysia	Differential export duty exemptions for palm oil	Still in effect, but less onerous than in 1983
	Preferential export financing	Still in effect
Argentina	Differential export taxes	Still in effect, but the Argentine government has agreed to eliminate all agricultural export taxes by October 15, 1987
Spain	Domestic consumption quota for soybean oil	Still in effect, until 1991
	Tax rebate on soybean oil exports	Eliminated in 1986 re EC accession
	Preferential export financing for soybean oil and soybean meal	Eliminated in 1986 re EC accession
Portugal	Government guaranteed crushing margins	Eliminated in 1985 re EC accession
Canada	Processing subsidy for rapeseed	Eliminated in 1984
	Transportation subsidies	Still in effect, and more onerous than in 1983

The injury to our industry caused by these subsidies arises out of two virtually inevitable consequences:

- First, the subsidies have caused the construction of unneeded processing capacity, resulting in substantial excess world capacity.

- Second, most of the subsidy value gets passed on to importing countries in the form of lower oil and meal prices. The best example at this writing is that Argentine and Brazilian FOB soybean oil prices are about $70 per MT below U.S. FOB prices for May-June shipment. This is a discount of about 20%. The last time U.S. FOB soybean oil prices were competitive with Argentina and Brazil was in early 1985. Also at this writing, Argentine and Brazilian CIF Rotterdam soybean meal prices for May delivery, adjusted to reflect quality differences, range from $6 to $11 per MT under comparable U.S. CIF Rotterdam prices. These are discounts ranging from 3% to 6%.

In most cases, the magnitude of the injury is closely correlated with the magnitude of the subsidy. At the time of NSPA's 1983 filing, Brazil's preferential financing programs for export and drawback were, in the aggregate, clearly creating the greatest injury. Following their suspension in 1984, and in view of the sharp narrowing of Malaysia's differential export duty exemptions for palm oil, Argentina's differential export taxes clearly became the most injurious of the cited practices. During recent years, Argentine crushers have consistently exported soybean oil and soybean meal at prices which yielded less revenue than the value of unprocessed soybeans. If Argentina fulfills its recent commitment to eliminate all agricultural export taxes by October 15, 1987, and provided no new processing or exporting subsidies are introduced, Argentine crushers will have raise their selling prices for soybean oil and soybean meal. However, Argentina has been slow to respond to U.S. requests to eliminate this predatory practice, and the U.S. industry still awaits concrete evidence that the Section 301 process can achieve meaningful relief.

EC OILSEEDS POLICY - AN ACCELERATING THREAT:

As discussed earlier, EC production of oilseeds is growing rapidly under the stimulus of heavy subsidies. EC 12 production of rapeseed, sunflowerseed, and soybeans reached 6.8 mil MT in 1985-86. This represented an increase of 4.9 mil MT, or 266%, since 1979-80. Oilseed imports during the same period declined a nearly offsetting 4.3 mil MT, with U.S. soybeans and sunflowerseed suffering most of the decline. See Table 20.

Under present EC pricing policies (favorable prices for oilseeds relative to grains), oilseed production will continue to increase rapidly. Present estimates for the 1987 crop are as follows (mil MT):

Rapeseed	5.0
Sunflowerseed	4.0
Soybeans	1.0
Total	10.0

Crops of this size will inevitably cause further declines in oilseed imports, primarily U.S. soybeans, and a sharp increase in net exports of subsidized rapeseed oil. In addition, the EC will become, for the first time, a significant net exporter of subsidized sunflower oil.

The EC has brought about these changes only at enormous cost. (See discussion on page 9). The cost of oilseed subsidies has escalated rapidly in recent years, as follows:

Calendar Year	Subsidy Cost	
	Bil ECU	Bil $ 1/
1984	0.930	1.075
1985	1.440	1.665
1986	2.320	2.682

1/ At current exchange rates.

Subsidies paid for the production of proteinaceous crops cost an additional 0.39 bil ECU's ($0.45 bil) in 1986.

Current estimates of the subsidy cost for the 1987 oilseed crops range from 3.5 to 4.0 bil ECU. At this level, the cost has become a major budgetary problem for the EC. In an effort to develop a new source of financing, the European Commission has proposed a huge consumption tax on all edible oils within the EC, with the proceeds earmarked for oilseed subsidies. The tax rate for 1987-88 would be 330 ECU/MT ($381/MT), or more than the current price of crude soybean oil. The tax would be levied at the border for imported oils, and at the refinery for oils produced within the EC (whether from EC produced oilseeds or imported oilseeds).

The rapidly increasing production of highly subsidized EC oilseeds represents a major competitive threat to our industry. It is extremely important that the subsidies be capped and the growth stopped. An absolutely essential first step is to prevent the EC Council of Ministers from adopting the proposed consumption tax. If the tax is implemented, it will stimulate additional EC oilseed production, reduce EC edible oil consumption, reduce EC soybean imports, and increase EC exports of subsidized vegetable oils, all at the expense of the U.S. soybean industry.

THE EFFECTS OF LDC DEBT:

The current high levels of LDC debt adversely affect our industry in two ways. The first is to inhibit the purchasing power of LDC's which import soybeans and soybean products. Mexico, Venezuela, Poland, Peru, and the Philippines fall into this category. Their problem can often be solved via the judicious use of PL 480 food aid and GSM credit guarantees.

The second, more complicated effect is to increase the production and exports of LDC's which export soybeans and soybean products. Argentina and Brazil fall into this category. The solution to this problem is more difficult. On the one hand, institutions like the World Bank, the IMF, and the U.S. Treasury and State Departments are trying to prevent major debt defaults by Argentina and Brazil. To this end, they encourage Argentina and Brazil to adopt policies which will increase their production and exports of soybeans and soybean products. On the other hand, to the extent such policies are successful, they injure both the hardpressed American soybean producer and the shrinking U.S. soybean processing industry. In addition, the loss of export volume and economic activity exacerbates the U.S. trade deficit and budget deficit.

The result is a major policy conflict between avoiding LDC debt default and strengthening America's agricultural economy. In our view, U.S. policy in this area has been, and remains, decidedly unbalanced. We note that many of the large banks with big loans to Argentina and Brazil are reporting record profits and paying substantial dividends, while soybean farmers and rural banks are going bankrupt. In addition, during the last three years, four cooperatives and two major corporations have left the U.S. soybean processing business, nine processing plants (including one of the world's largest) have closed permanently, and twenty-eight processing plants -- 37% of the industry's total -- have either been sold, or are now for sale.

From our perspective, it is painfully obvious that financial policymakers in the U.S. government, the World Bank, and the IMF have consistently favored money-center banks over U.S. agriculture, thereby creating major economic problems for our industry.

Senator **Melcher**. Jim, you testified that the most competitive soybean industry in the world is right here in the United States. Generally speaking, we have to debate that on the basis of cost of production. Could you enlarge on that for us? We continually bump into that when we see other countries reporting a commodity at a cheaper price.

Mr. **Lindsay**. I know this, because I lived in Brazil, you remember, for 2½ years, and I know that it costs less than $170 an acre to clear land in Brazil. The land is worthless right now, except for just grazing cattle. So the farmers in Brazil are starting off with $170 an acre.

Did you want to say something, James?

Mr. **Adams**. Senator, I would like to elaborate on that, if I might. Ohio State has just done a study of the variable cost of production, comparing Argentine production variable costs versus corn States and lake States production. They have determined that the variable cost, and that is the cost that really will determine who will stay in business in the long run, is 15 percent higher in Argentina than in those States.

They also compared Brazilian variable costs versus U.S. cost as a whole and Brazilian cost was 38 percent higher. We would be glad to give you documentation, if you care to see it.

Senator **Melcher**. I would like to have it for the record, if you would submit it.

[A study, "Comparative Costs in Agricultural Commodities Among Major Exporting Countries," by Gerald F. Ortmann, Valter J. Stulp, and Norman Rask, Department of Agricultural Economics and Rural Sociology, the Ohio State University, Columbus, OH, follows:]

ESO 1325

Comparative Costs in Agricultural Commodities Among Major Exporting Countries

by

Gerald F. Ortmann
Valter J. Stulp
Norman Rask

Department of Agricultural Economics and Rural Sociology
The Ohio State University
Columbus, Ohio

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Summary

U.S. competitiveness in agricultural commodities has been of major interest recently because of the declining U.S. share in world agricultural trade. Competitiveness, defined as the ability of a country to achieve a market share, is determined by a number of factors which affect the excess supply and excess demand conditions on the world market.

On the supply side, production and marketing costs are the principal factors affecting competitiveness. Government policies, however, are also important since both agricultural and non-agricultural policies (taxes or subsidies) that affect market operations determine in part the cost of production structure for an individual country. These costs, as modified by policies, are termed "policy market costs." They reflect the cost of doing business in the real world and are somewhat different than free market costs which would exist in a market free of intervention. The policies are also amenable to change should a country wish to alter its competitive position.

This study deals with comparative costs of producing and marketing corn, wheat and soybeans for four middle-income countries (Argentina, Brazil, South Africa, Thailand) and five high-income countries (Canada, France, United Kingdom, United States). As noted above, policy market costs are used as reported by each country, thus reflecting natural endowments and technology level as well as specific government policies. For most countries, production costs represent farmer experience over several years in the early to mid 1980s, adjusted for inflation and converted to dollar equivalents at mid-1986 exchange rates. Mean real exchange rates over seven years (1980-86) are used in a comparison analysis to test the sensitivity of the results to changes in exchange rates.

Among the countries studied, Thailand is the lowest-cost producer of corn, and Argentina of wheat and soybeans. The U.S. appears to be a high-cost producer, particularly of wheat and soybeans. Production costs are the major component of landed costs (i.e., f.o.b. plus international freight). The major factors giving rise to cost differences between low-cost producers (e.g., Argentina) and high-cost producers (e.g., the U.S.) appear to be fertilizer, general overhead, capital replacement and land costs. In general, cost advantages among the countries are due mainly to production costs, and not marketing or international freight charges.

Comparative Costs in Agricultural Commodities Among Major Exporting Countries

Gerald F. Ortmann, Valter J. Stulp and Norman Rask

1. Introduction

The issue of competitiveness in export markets is a subject of major concern to a broad range of U.S. agricultural interests. This concern has been focused by the rapid decline in U.S. market share in grains and oilseeds. This decline, coupled with significantly lower world prices, is forcing a restructuring of the asset base in U.S. agriculture. As part of this restructuring process, it is important to understand clearly the competitive advantages and disadvantages of U.S. agriculture.

Farm level costs of production, developed from individual fixed and variable cost components are the basic foundation upon which cost competitiveness is determined. Marketing costs to assemble, store, transport and load ships at export terminals and international freight to bring the commodity to the destination market are the other two major cost components. Depending on a variety of differences in natural resource endowments, infrastructure, distance from market and not least, government policies, each competing country will have a unique cost position in world markets. Some of these cost differences are largely intractable. Others are more easily altered by policy.

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Government policies, both agricultural and non-agricultural policies, can either enhance or distract from the competitive situation that would exist in a free market. In fact, there is so much market interference in both importing and exporting countries, that it is meaningless to try to determine free market economic costs of production as a basis for establishing competitiveness in international markets. Rather, in this study we use "policy market costs," recognizing that most input costs reflect some level of government policy interference.

The recent decline in U.S. world market share has been attributed to a number of factors including, for example, the strong dollar, a weak world economy, enhanced competitiveness of other countries, an increase in trade agreements, and price supports that allow other countries to undersell the U.S. During the 1981/82 to 1985/86 period, for example, the U.S. share of world wheat trade declined from 48% to 29%, corn exports fell from a dominant 75% of world trade to 57%, and U.S. world market share of soybeans and soybean products dropped from 68% to 60%.

Several studies on U.S. competitiveness have been completed or are underway. We have drawn from these where possible. For example, Stanton (1985) compiled a comprehensive report on the cost competitiveness of U.S. agricultural commodities with those produced by countries of the European Community (E.C.). While the U.S. appeared to have a comparative cost advantage in corn production, some major E.C. countries, for example, the U.K. and France, had a cost advantage in wheat production (pp. 63,64,71,82,83). At present the Economic Research Service (ERS) of the USDA is compiling comprehensive reports on the competitiveness of U.S. wheat in the international market (Davies).

In this study the cost competitiveness of the U.S. in the corn, wheat and soybean markets relative to other major exporting (competing) countries is analyzed. These three commodities have accounted for 85-90 percent of the value of U.S. agricultural exports in recent years. Total costs of supplying the above three commodities from various exporting countries to two reference markets, namely Rotterdam and Japan, are determined. Differences in total landed costs may be due to production costs, internal marketing costs or international freight. Included in the study are four middle-income countries (Argentina, Brazil, South Africa and Thailand) and five high-income countries (the U.S., Canada, Australia, the U.K. and France). Because of their relative importance in determining cost competitiveness, specific attention is given to the impact of land rents and exchange rates on country level costs.

Geographic separation of markets is one factor affecting cost competitiveness. While exporting countries are widely distributed around the world, the major markets, i.e., Japan, Western Europe, USSR, are located in the North. In most cases, this gives a transport cost advantage to agricultural exporting countries located in the North.

Each of the countries studied is a major producer and exporter of one or more of the three commodities. The U.S. and Argentina are major exporters of all three and the U.S. is dominant in each market. Canada, France and Australia are important exporters of wheat, and France and Thailand significant exporters of corn. Brazil is a major exporter of soybeans and a major importer of wheat and occasionally some corn and the E.C. a major importer of soybeans.

In Table 1 the mean shares of the world corn, wheat and soybean markets are summarized for the nine countries over the period 1982-84. These nine countries together account for about 90% of the world exports of the three commodities studied.

Table 1. Exports and Mean Shares of World Corn, Wheat and Soybean Markets by Various Countries 1982-84.

Country	Commodities		
	Corn	Wheat	Soybean equivalents*
	Million Metric Tons		
World	69.16	111.01	45.17
Argentina	5.76	7.16	4.23
Australia	0.02	9.98	—
Brazil	0.50	0.00	10.30
Canada	0.56	21.16	—
France	4.28	14.40	—
South Africa	1.75	0.10	—
Thailand	2.85	0.0	—
United Kingdom	0.01	2.06	—
United States	48.56	42.11	29.41
	% of World total		
Argentina	8.3	6.4	9.4
Australia	0.0	9.0	--
Brazil	0.7	0.0	22.8
Canada	0.8	19.1	--
France	6.2	13.0	--
South Africa	2.5	0.1	--
Thailand	4.1	0.0	--
United Kingdom	0.0	1.9	--
United States	70.2	37.9	65.1
Total	92.8	87.4	97.3

Source: Food and Agriculture Organization of the United Nations, pp. 112-14, 123-25, 210-11, 240-41, 269-70.

*Trade in soybean products from non-producing countries is not included.

2. Competitiveness defined

A great deal of confusion has arisen about the term "competitiveness." Perkins defined competitiveness as an ability to achieve a market share. Thus, a country becomes more competitive when its share of the export market increases, and vice versa. A number of factors influence a country's competitiveness, for example, the marginal costs (supply functions) of the country concerned and its competitors, and excess demand functions of importing countries. A shift in the excess demand function of a major importer, for example, will influence the market shares of the exporter when there are differences in the price elasticities among the exporters' excess supply functions. These functions include farm production and internal marketing costs, and are affected by government intervention through taxes and subsidies. Changes in these factors can have a major effect on competitiveness (Sharples).

In this study "cost competitiveness" is defined as the ability of farmers in a country to compete with farmers in another country in terms of production and marketing costs of agricultural commodities. Policy market costs reflect natural endowments and technology level as well as specific government policies. They are part of the overall competitiveness equation on the supply side, and reference will be made to "cost competitiveness" of a country, or a country has a "comparative cost advantage" in a certain commodity. Detailed production and marketing costs are useful in that they reflect differences in production and marketing structure, technology and policy among countries and they show which costs are most important in each country.

Production and marketing costs provide a short run picture of a commodity market. Assumptions are that production and marketing infrastructure is given, technology is known, investment in the sector is fixed, variable input prices are given, and demand is fairly stable. Major factors influencing a country's long run competitiveness include natural endowments, public and private investment, opportunity cost of inputs, technology, domestic demand shifts, and public policies which influence the last four factors (Sharples).

3. Methodology

Three types of costs are considered in getting commodities to final external markets: production or farm gate costs, internal marketing costs (from the farm gate onto a ship), and international freight or shipping costs (from the exporting port, f.o.b., to the importing port). The process used for determining each of these cost components is described below.

3.1 Production costs

These costs are presented in some detail for the various products and exporting countries. To make a meaningful comparison of production costs among countries they must be placed on a common basis. Factors that complicate comparative cost analyses among countries include (1) different methods of collecting and reporting cost data (data availability), (2) different inflation rates among countries and (3) changes in exchange rates over time.

Within each country there are difficulties in obtaining representative cost data since crop growing conditions often vary considerably from region to region and difficulties exist in allocating fixed costs (e.g., machinery depreciation and general overhead) to individual enterprises. The last two aspects are basic to making production cost studies and are not discussed further. The first three aspects are discussed briefly below.

3.1.1 Data availability

Methods of collecting and reporting cost data vary among countries. The U.S. has the most comprehensive cost of production studies in the form of

USDA Economic Research Service (ERS) enterprise budgets. For every commodity a national average as well as regional averages for major producing areas are presented annually. In this study U.S. mean production costs of corn, wheat and soybeans were based on six years of ERS budget data (1980-85). Overall U.S. cost averages as well as mean costs for major regions producing corn (Corn Belt), wheat (Central Plains) and soybeans (Corn Belt) were calculated.

Of the other high-income countries considered, the U.K. has some of the best data available in the form of the University of Cambridge Annual Farm Reports. U.K. winter wheat production costs were based on two years of data(1982 and 1984) presented by Stanton (p. 80).

Australia, Canada and France do not have similar detailed production cost data as the U.S. or U.K., thus complicating comparative cost studies. Annual crop budgets are established by various organizations. Data presented in this study for Australia and Canada are based on the best data available to country specialists at the USDA (Byrne; Johnston; Goodloe). For Australia, the 10-year mean wheat yield was used because of severe droughts in the 1980's. Australia's wheat yields showed no marked trends over the years 1948-79 (Longworth and Knopke, p. 646). For France, wheat and corn production costs were based on three years of data (1980-82) derived by Stanton (pp. 58-61, 68-69) for the Paris Basin.

Of the middle-income countries, South Africa had the most comprehensive production cost data available for corn and wheat. Soybeans at present are not an important crop. The Directorate of Agricultural Production Economics conducts annual surveys in major corn and wheat producing areas. Corn and wheat production costs were based on the survey results. For both commodities, six years of data were used (1979/80 - 84/85).

For Argentina, corn, wheat and soybean cost data were derived from official (Argentine) estimates published in 1985 in the "Annual Agricultural Situation Report" (Ahalt), which are the best data available to the USDA (Hazera). Mean yields were derived from actual yields over the last five years in the same Report (1980/81 - 84/85).

For Brazil, budgets established by government organizations were supplemented with data from university surveys. Corn production costs for Thailand were based on five years of data (1980/81 - 84/85) received from the USDA (Schwartz). In general, data were accepted as obtained. However, in certain limited cases, estimates of omitted cost items were made, for example, labor costs and interest on non-land capital in Canada were based on rates for the U.S.

3.1.2 Accounting for inflation

Inflation rates, as measured by the Consumer Price Index (CPI), vary widely among countries and usually vary between years in the same country. In this study production and marketing costs of corn, wheat and soybeans were inflated to a mid-1986 basis using the relevant CPI in each country. To make these costs comparable among countries, the mid-1986 cost estimates were converted to U.S. dollars using mid-1986 exchange rates.

3.1.3 Currency exchange rates

Although floating exchange rates for individual currencies have enhanced world trade, they have complicated analyses of time series data in comparative cost studies (Stanton, p. 16). In the period 1980 to 1985 most currencies depreciated against the U.S. dollar in nominal and real terms, (Goodloe and Byrne, p. 18; Stallings). Various indices, such as the Federal Reserve's weighted-average exchange value index (which measures movements of the dollar against currencies of the ten largest market economies) and the index of the agricultural trade-weighted dollar, show that the U.S. dollar reached a peak during 1985 (Economic Research Service, 1986, pp. 17, 19). From February 1985 to February 1986 the nominal commercial rates for the dollar fell 29% against both the Japanese yen and the German mark. However, most agricultural competitor currencies have not strengthened against the U.S. dollar in 1986 (ibid. p. 19). Expectations are that, at least for the near future, both Japan and West Germany will not allow the U.S. dollar to fall much further. In addition, currencies of major agricultural competitors are not expected to appreciate significantly against the U.S. dollar and are expected to remain at roughly their mid-1986 level in the near future. For the above reasons, mid-1986 (i.e., mean of June and July) exchange rates are used to convert production and marketing costs in foreign currencies to U.S. dollars.* The effects of using mean real exchange rates for a 7-year period (1980-86) are also evaluated. This mean incorporates periods of a low dollar value (1980) and a high dollar value (1985).

Table 2 shows the exchange rates of foreign currencies with the U.S. dollar during mid-1986 and the seven-year (1980-86) mean real exchange rates with mid-1986 as the basis. Exchange rates and CPIs were obtained from International Financial Statistics, an International Monetary Fund publication

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*Production and marketing costs for each country are representative of one or more years in the 1979-85 period depending on the specific country. The relevant CPI for each country was used to inflate previous years data to a common mid-1986 level prior to converting the costs to dollar equivalents.

Table 2. Mid-1986 exchange rates and mean real exchange rates for 1980-86,* (mid-1986 CPI = 100)

Country	Currency	Exchange rates	
		Mid-1986	1980-86
		(Currency/U.S. Dollar)	
Argentina	australe	0.8889	0.8477
Australia	dollar	1.5132	1.2531
Brazil	cruzado	13.8400	11.9033
Canada	dollar	1.3852	1.3292
France	franc	7.0280	7.4503
South Africa	rand	2.5381	1.8380
Thailand	baht	26.2825	23.0928
United Kingdom	pound	0.6631	0.6464

*Real exchange rates per U.S. dollar were calculated as the nominal exchange rate multiplied by the ratio of the U.S. CPI to the relevant country's CPI (mid-1986 = 100).
Source: International Monetary Fund.

3.2 Internal domestic marketing costs

The costs of marketing corn, wheat and soybeans include handling, storage, transport and port handling costs, i.e., the costs of transferring the products from the farm gate to the export ports and onto the ships. They represent the difference between the "free-on-board" (f.o.b.) price and the farm gate price. For the countries listed below, sources of marketing costs are given in parenthesis: Argentina (Ahalt), Brazil (Miranda), South Africa (Louw), Thailand (Smit), U.S. (Lin), Australia (Johnston) and Canada (Goodloe). Marketing costs were estimated for the U.K. and France. For some countries "free-on-rail" (f.o.r.) costs were supplemented with port handling costs estimated from U.S. and Brazil data (Miranda).

For the U.S., Gulf ports were considered the export location, while for Canada it was assumed that exports were shipped along the St. Lawrence River and via West Coast ports, depending on the destination. For Brazil, the southern ports were considered.

3.3 International freight charges

These form an important component of the landed cost of commodities in world markets. Ocean freight rates fluctuate widely and, as McLennan has pointed out, export competitiveness is not only affected by the level of rates, but the ability to manage freight rate volatility.

Because of the numerous possible export destinations and to facilitate comparisons among countries, two major export destinations were considered, namely Rotterdam and Japan. Although Europe is an important wheat exporter, Rotterdam was taken as a destination since the distance, and hence freight charges, from this region to the Black Sea (U.S.S.R.) would be roughly common for all exporters.

Freight charges for most countries were obtained from data published by the Food and Agriculture Organization of the United Nations (p. 23). Estimates were made for countries for which data were not available, after consulting with experts. Freight rates are depressed at present, and since they are not expected to improve until 1990 (McLennan), the latest data available (for 1984/85) were used.

3.4 Cost of production by wheat type

For most countries, the wheat costs of production used in this study reflect a composite of several types of wheat. Since each wheat type has a specific market as well as unique cost of production and price structure, it is important to determine whether or not the use of a composite cost value introduces a bias into the cost competitive comparisons. Table 3 shows the major types of wheat grown in various exporting countries.

Table 3. Major types of wheat grown in various exporting countries

Country	Major wheat type
Argentina	Hard red winter
South Africa	Hard red winter
United States	Hard red winter
Canada	Hard red spring
Australia	All white winter*
United Kingdom	Soft white winter
France	Soft white winter

*Equivalent to hard red winter in terms of quality (Byrne).

Costs of production by wheat type are available for the U.S. These mean production costs along with prices of various types of wheat in the U.S. for the years 1983-85 are shown in Table 4.

Table 4. Mean production costs and prices of U.S. wheat types, 1983-85

Wheat type	Production costs (including land) ($/mt)	Harvest-period price ($/mt)
	(U.S. dollars per metric ton)	
Hard red winter	143	115
Soft red winter	152	116
Hard red spring	155	129
Durum	162	134
White	136	126

Source: Calculated from Economic Research Service (ERS) data in "Economic Indicators of the Farm Sector: Costs of Production, 1985."

The greatest production cost difference lies between Durum and White wheat and amounts to $26 per ton. Production costs of the other three types, which are the major ones traded on the world market and comprise the major wheat types in most countries (see Table 3), are similar. Also, there appears to be a strong positive correlation between production costs per ton and prices.

For the above reasons wheat production and marketing costs for various countries were not calculated for each type, but reflect weighted average costs of wheat. Comparisons among countries are based on mean costs.

4. Results

Detailed production costs of corn, wheat and soybeans are presented in Appendices 1, 2 and 3 on a per metric ton basis. Production costs are categorized into variable and fixed costs, where variable costs include cost items that are incurred if production takes place while fixed costs are incurred even if no production takes place in the short run. The costs include cash costs, capital replacement costs and imputed costs on factors such as land, family labor and nonland capital (economic costs). Management and risk costs were not considered. Some economists question whether land should be included in an analysis of this nature. However, land is a factor of production and has opportunity costs. In the long run, all costs, including land, must be covered by farmers to remain in production. Land costs may reflect the relative scarcity or abundance of this factor among countries.

The sum of production and marketing costs are here termed "free-on-board" (f.o.b.) costs.[1] Total landed costs of corn, wheat and soybeans for various countries are the best measure of competitiveness and are discussed next. This is followed by a discussion of the detailed cost breakdown within each country. Finally, two sections deal with the cost competitive implications of varying levels of land rent and exchange rates.

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[1] The strict definition of f.o.b. cost is the farm gate price plus the marketing costs of getting the product from the farm gate onto a ship.

4.1 Landed costs

Total landed costs of corn, wheat and soybeans at the two reference ports, Rotterdam and Japan, for various countries are summarized in Table 5.

Table 5. Total Landed Costs of Corn, Wheat and Soybeans at Rotterdam and Japan for Various Exporting Countries (mid-1986 Price Level and Exchange Rates).

Particulars	f.o.b. cost	Freight rates to Rotterdam	Freight rates to Japan	Landed cost at Rotterdam	Landed cost at Japan
		($US/metric ton)			
1. Corn					
Argentina	115.68	18.50	32.39	134.18	148.07
Brazil	185.75	16.50	34.20	202.25	219.95
South Africa	143.74	19.40	30.80	163.14	174.54
Thailand	113.08	20.00*	12.00*	133.08	125.08
United States	144.32	12.62	26.00	156.94	170.32
France	233.37	2.00*	29.90	235.36	263.26
2. Wheat					
Argentina	112.10	18.50	32.39	130.60	144.49
South Africa	167.61	19.40	30.80	187.01	198.41
United States	190.08	12.62	26.00	202.70	216.08
Canada	193.13	10.71	19.35	203.84	212.48
Australia	154.87	25.33	19.08	180.20	173.95
United Kingdom	168.65	4.00*	31.00	172.65	199.65
France	197.97	2.00*	29.90	199.96	227.86
3. Soybeans					
Argentina	185.04	18.50	32.39	203.55	217.44
Brazil	241.91	16.50	34.20	258.41	276.11
United States	267.74	12.62	26.00	280.36	293.74

Sources: 1) Appendices 1,2 and 3.
2) Food and Agriculture Organization of the United Nations (p. 23).
*Estimates.

4.1.1 Corn

Of the countries considered, Thailand had the lowest landed costs for corn at both Rotterdam and Japan, namely $133 and $125 per ton, respectively. Argentina showed the second-lowest landed costs at both destinations, with the cost at Rotterdam being only marginally higher than Thailand's. The major reason for Thailand's and Argentina's cost advantage is low production costs which give rise to low f.o.b. costs (see Appendix 1). Reasons for the low production costs will be discussed later. It is noteworthy that two middle-income countries are the lowest cost producers.

The U.S. had the third-lowest landed cost at both destinations, its low freight costs offsetting South Africa's slightly lower f.o.b. cost. South Africa is a relatively small exporter of corn and it may have a comparative cost advantage in selling corn to African countries because of their close proximity.

France is the most important corn producer in the E.C. and its exports averaged 4.2 million tons over the period 1982 - 84. Its relatively high landed costs, even at Rotterdam ($235), are due to high production costs per ton (see also Stanton, pp. 70-73). France's exports are probably limited to the protected, deficit E.C. market.

Brazil has high landed costs at both Rotterdam and Japan. Although Brazil is only a very small and occasional exporter of corn it is a major corn producer and a rapidly growing corn consumer. Its future as an exporter will depend on major cost reduction through yield-increasing technology. If this does not occur then Brazil will be a major future corn market.

4.1.2 Wheat

From Table 5, Argentina has the lowest landed cost for wheat at both Rotterdam and Japan. Argentina has low f.o.b. costs due to low production costs (see Appendix 2). However, Argentina's share of the world wheat market over the period 1982 - 84 was only 6.4%.

As regards the other countries and Rotterdam as destination, the U.K. and Australia have a cost advantage in wheat exports. Low freight rates to Rotterdam give the U.K. a cost advantage; its f.o.b. costs are the fourth-lowest. Australia, apart from Argentina, is a low-cost producer of wheat. France is a high-cost producer and landed costs, even at Rotterdam, are high as a result. Canada shows the highest landed cost at Rotterdam due mainly to high production costs (see Appendix 2). However, Canada's landed costs are similar to the U.S.

With Japan as destination, Australia is second to Argentina and South Africa is third in terms of lowest landed costs per ton. Australia has a freight cost advantage to the Far East. France reflects the highest landed cost at Japan ($228 per ton), followed by the U.S. ($216 per ton). Although the U.S. dominated the world wheat market for a long time (a world market share of 38% over the period 1982-84) it now appears to have a comparative cost disadvantage in the production and export of wheat.

4.1.3 Soybeans

The two middle-income countries, Argentina and Brazil, have a cost advantage in soybean production and exports relative to the U.S. Although the U.S. has lower freight costs to both Rotterdam and Japan, these are more than offset by lower production costs in Argentina and Brazil (see Appendix 3). The two latter countries have higher marketing costs because of poor infrastructure.

Although the U.S. has been dominating the world soybean market, Brazil, and more recently Argentina, are increasing in importance. Brazil in particular has considerable potential to further increase its soybean production with new technology and because of substantial land resources. Further, since Brazil has a cost disadvantage in corn and wheat production, it will likely continue to be a formidable competitor in soybean markets.

4.2 Production and marketing costs

From the foregoing analysis, production costs generally appear to be the most important element in a country's comparative cost position. This section highlights some of the important cost elements giving rise to differences in production costs. A summary of corn, wheat, and soybean production and marketing costs in various countries is given in Table 6. Detailed production costs are presented in Appendices 1, 2 and 3.

4.2.1 Corn

From Table 6 it is evident that Thailand has the lowest f.o.b. cost per ton of corn due to relatively low production cost of about $113 per ton. These low costs are due mainly to the fact that Thailand farmers have been achieving mean yields of about two tons per hectare using little commercial fertilizer. Corn production is labor and animal intensive which makes it unique among the countries considered.

Argentine farmers, who are also relatively low-cost producers ($116 per ton), use an advanced crop-cattle rotation system, and have fertile soils. Good yields are achieved without the use of commercial fertilizers, which are high-priced because of government-imposed taxes. Argentina also has low chemical, land and capital replacement costs per ton of corn. Export prices have been subject to a 25% tax resulting in low net farm prices and low land costs. To remain in production farmers use a low-cost strategy. In the event of the government reducing or abolishing taxes on agricultural inputs and export prices, Argentine farmers would probably respond by increasing the use of those inputs. The volume of production could increase substantially.

France shows the highest f.o.b. cost per ton ($233) which is due to high production costs, mainly fixed costs. No detailed cost estimates could be obtained for France, and data were based on Stanton (pp. 68-69). Brazil has the second highest production costs due mainly to high fuel, labor and land costs per ton, primarily from low yields. Labor costs, which are low on a per hour basis, are high per ton because of labor-intensive cultivation and harvesting methods. Brazil also has high marketing costs due to long transport distances and poor infrastructure.

South Africa, with the lowest yield of about two tons per hectare, has an f.o.b. cost similar to the U.S. South Africa's share of the export market is small and it is not expected to increase much due to land and moisture constraints. The U.S., which has higher production costs of about $11 per ton, has relatively low marketing costs due to an efficient infrastructure and the use of subsidized barges to transport corn. Production costs of the Corn Belt are only about $5 per ton less than for the U.S. as a whole.

Table 6. Production and Marketing Costs of Corn, Wheat and Soybeans in Various Countries, (Mid-1986 Prices and Exchange Rates.)

Particulars	Yield Per Ha.	Costs (U.S. $/m. ton)				
		Variable (1)	Fixed (2)	Total Production (3)=(1)+(2)	Marketing (4)	Total f.o.b. (5)=(3)+(4)
	(Tons)	($U.S./metric ton)				
Corn						
Argentina	3.36	45.60	39.62	85.22	30.46	115.68
Brazil	2.22	73.28	75.10	148.38	37.37	185.75
South Africa	1.98	61.12	47.02	108.14	35.60	143.74
Thailand	2.07	43.98	35.18	79.16	33.92	113.08
USA - Overall	6.43	58.70	60.52	119.22	25.10	144.32
USA - Corn Belt	6.77	55.34	59.16	114.50	25.10	139.60
France*	6.88	91.52	109.05	200.57	32.80	233.37
Wheat						
Argentina	1.81	42.26	40.34	82.60	29.50	112.10
Brazil	1.14	223.79	79.36	303.15	41.29	344.44
South Africa	1.46	77.99	57.12	135.11	32.50	167.61
USA - Overall	2.24	68.27	91.21	159.48	30.60	190.08
USA - Central Plains	2.18	54.02	91.76	145.78	34.37	180.15
Canada	1.94	57.66	104.67	162.33	30.80	193.13
Australia	1.50	42.45	77.02	119.47	35.40	154.87
United Kingdom	6.98	66.62	72.03	138.65	30.00	168.65
France*	6.36	48.36	116.81	165.17	32.80	197.97
Soybeans						
Argentina	2.10	79.80	69.10	148.90	36.14	185.04
Brazil - with wheat	1.80	117.35	67.45	184.80	43.50	228.30
Brazil - without wheat	1.80	121.96	76.45	198.41	43.50	241.91
USA - Overall	1.95	88.36	154.78	243.14	24.60	267.74
USA - Corn Belt	2.27	69.35	154.60	223.95	24.60	248.55

Source: Appendices 1, 2 and 3.

In general, variable costs play a more important role than fixed costs in middle-income countries while fixed costs predominate in the developed countries. Developing countries may thus have greater flexibility in production in that they have less specialized investments (e.g., machinery). Variable inputs such as fertilizer, chemicals and fuel have higher unit prices in developing countries, but prices of land and labor are lower. In Brazil, for example, fertilizer prices in 1985 were about 40% higher than in the U.S., while land prices were about 40% and labor costs about 10% of those in the U.S.

4.2.2 Wheat

Argentina has a comparative cost advantage in wheat production with a f.o.b. cost of $112 per ton. The main contributory factors are no commercial fertilizer costs and low machinery and land costs. Reasons for these low costs are similar to those applicable to corn, and can be attributed largely to government policies such as import and export taxes.

Australia, with a mean yield of 1.5 tons per hectare, has the second lowest cost. The f.o.b. costs of South Africa and the U.K. are similar, with South Africa's lower production costs ($135 per ton) offset somewhat by higher marketing costs of about $32 per ton. South Africa's costs compare favorably since these are based on the main production areas with higher yields. However, South Africa is a relatively small exporter of wheat and will remain so because of land and moisture constraints.

The U.S. shows lower production and f.o.b. costs than Canada, with a cost difference of about $3 per ton. Production costs on the Central Plains, the primary wheat producing area in the U.S., are about $14 lower than the U.S. overall production costs. Moreover, f.o.b. costs are only $10 lower due to higher marketing costs of the hard red winter wheat from the Central Plains.

In Brazil, wheat is primarily a winter crop and is double-cropped with soybeans. Brazil has a cost disadvantage in wheat production mainly because of environmental constraints and poor technology. High production costs are due to high variable costs (mainly seed, fertilizer, chemicals and fuel costs) relative to yield. Marketing costs are also relatively high due to long transport distances to ports and poor infrastructure.

Total variable costs are dominant in middle-income countries (mean 59%) and fixed costs in developed countries (mean 60%). High-income countries have a higher investment in machinery as is evident by the capital replacement figure, and tend to have higher labor and land costs per ton.

4.2.3 Soybeans

From the cost estimates in Table 6, both Argentina and Brazil have a substantial competitive advantage in production costs relative to the U.S. Variable costs in Argentina are low since little or no commercial fertilizers are used. Custom operation costs are high because most farmers in Argentina use contractors to harvest their crop. However, these high costs are partly offset by relatively low machinery costs per ton. In both Argentina and Brazil, fixed costs are substantially lower than in the U.S. This is the main reason for the two developing countries' comparative cost advantage. Lower production costs more than offset the relatively high marketing costs in Argentina and Brazil.

In Brazil, about 20% of soybeans are double-cropped with wheat. Brazil has relatively high variable costs which are due to high fertilizer prices and greater requirements per hectare of $P2O_5$. In general, variable costs are dominant in the middle-income countries while fixed costs account for 64% of total production costs in the U.S. Chemicals, machinery and land are mainly responsible for the high cost of soybean production in the U.S. Corn Belt soybean farmers produce their crop at a 8% lower cost than the "average" U.S. farmer.

5. Cost comparisons in Argentina and the U.S.

This section deals briefly with the main factors which give rise to the cost differences between Argentina, a low cost producer of corn, wheat and soybeans, and the U.S., the largest exporter and a relatively high cost producer.

Analyzing the detailed production cost breakdown in Appendices 1, 2 and 3 suggests that fertilizer, general overhead, capital replacement and land costs are the main factors giving rise to overall cost differences. These items are summarized on a per ton and per hectare basis in Table 7. Labor costs are also shown, although cost differences are not substantial.

As was mentioned before, Argentina has a cost advantage in that farmers achieve a good yield with use of little or no commercial fertilizers. Land prices in the U.S. (in 1985) are over three times those in Argentina. Land is a residual claimant of profits and high U.S. land prices may simply reflect support price policies while in Argentina they reflect high export taxes which have reduced the net price to farmers. U.S. land prices have fallen sharply since 1980 reflecting substantially lower commodity prices.

Table 7. Selected cost inputs for corn, wheat and soybean production in Argentina and the U.S., (mid-1986 prices and exchange rates)

	Corn		Wheat		Soybeans	
Particulars	Argentina	U.S.	Argentina	U.S.	Argentina	U.S.
Yield/ha.(m. tons)	3.36	6.43	1.81	2.24	2.10	1.95
			($US/metric ton)			
Fertilizer	--	22	--	21	--	13
General overhead	--	7	--	10	--	15
Capital replacement	6	14	7	25	11	33
Land	14	22	16	27	22	63
Labor	8	6	7	13	14	19
	Per Ha		Per Ha		Per Ha	
Fertilizer	--	144	--	48	--	25
General overhead	--	45	--	22	--	28
Capital replacement	21	89	12	57	23	64
Land	47	145	28	60	47	123
Labor	27	40	13	28	29	36

Capital replacement is another controversial cost factor, the controversy usually centering on the useful life of a machine. The ERS has used engineering data in its calculations. Information from other countries is ambiguous. Capital replacement figures represented here reflect data received from country specialists at the USDA. More research is needed into how the capital replacement figures were derived. It was assumed here that the figures obtained correctly reflect the life periods of machines in the countries concerned. The main factor for the large replacement cost differences between Argentina and the U.S. may be due to the specialized, high-cost nature of machines on American farms. Alternatively, it may be that the useful life of U.S. farm machinery has been underestimated. Argentine farmers make greater use of custom operations but these are more than offset by high ownership costs in the U.S.

General overhead is a noteworthy item. Although Argentine data shows no cost under this category, there may be some cost, albeit small. The U.S. shows a significant cost, e.g., $45 per hectare for corn. According to the ERS general overhead includes electricity for general farm use, telephone, office supplies, fees and dues, water drainage, liability insurance, fence repairs, and general business expenses (Economic Research Service, 1985, p. 16).

The lower part of Table 7 reflects costs per hectare of land. For corn and wheat, higher costs per hectare in the U.S. are not offset by the higher yields per hectare. For soybeans, higher U.S. costs per hectare go together with a lower yield.

It is interesting that labor costs per ton are not much different between the U.S. and Argentina. In fact for corn, labor costs per ton are lower in the U.S., namely $6 versus $8. For wheat and soybeans, labor costs per ton for Argentina are $7 and $14, respectively. It appears, therefore, that labor is not a factor giving rise to major cost differences per ton between the two countries.

6. Effects of changing exchange rates

The impacts of changing exchange rates on the rankings of exporting countries in terms of f.o.b costs is shown in Table 2, where seven-year mean real exchange rates are presented. These mean exchange rates incorporate periods of a low-valued dollar (1980) and a high-valued one (1985), and may reflect long term relationships between the U.S. dollar and other currencies. The impacts of the mean exchange rates on the rankings of countries in terms of f.o.b. costs are evaluated and compared with the rankings during mid-1986. Results are given in Table 8.

Table 8. F.o.b. costs of corn, wheat and soybeans in various countries, mid-1986 and 1980-1986 mean real exchange rates, CPI mid-86 = 100 (U.S. dollars per metric ton).

	f.o.b. cost (U.S. $/mt)			
	mid-1986		1980-1986	
Country	$/t	ranking	$/t	ranking
1. Corn				
Argentina	116	2	121	1
Brazil	186	5	216	5
South Africa	144	3	199	4
Thailand	113	1	129	2
United States	144	3	144	3
France	233	6	220	6
2. Wheat				
Argentina	112	1	118	1
Brazil	344	8	400	8
South Africa	168	3	231	7
United States	190	5	190	5
Canada	193	6	201	6
Australia	155	2	187	3
United Kingdom	169	4	173	2
France	198	7	187	3
3. Soybeans				
Argentina	185	1	194	1
Brazil	242	2	281	3
United States	268	3	268	2

From Table 8 it appears that the rankings of most countries has not changed markedly under the mean exchange rates when compared with the mid-1986 positions, particularly for corn and soybeans. For corn, Argentina was ranked first, Thailand second, and the U.S. third. For soybeans, the U.S. improved its ranking to second at the expense of Brazil.

For wheat, the changes in the relative positions are more marked. The U.S. maintained its fifth ranking, and Canada its sixth. The U.K. improved from fourth to second, and France from seventh to third, its f.o.b. costs being similar to Australia's which lost one position. South Africa was the most negatively affected country, its position shifting from third to seventh.

Overall, of the three commodities the U.S. appears most cost competitive in corn and may compete with Brazil for soybeans. However, since Brazil has relatively high f.o.b. costs for corn and wheat, it may have a comparative advantage in soybean production. U.S. farmers, unlike Brazilian farmers, would be more sensitive to relative price changes in corn and soybeans.

The fact that the rankings of most countries had not changed markedly under the two exchange rates, indicates that the mid-1986 position, on which all previous analyses were based, is an acceptable one. Its advantage is that it reflects better the current economic circumstances which are likely to persist into the near future.

7. Conclusions

The fact that the U.S. has been losing its share of world agricultural trade over the past five years has awakened interest in the issue of competitiveness which has been defined as the ability of a country to achieve a market share. This study has dealt with the cost competitiveness of major exporting countries in corn, wheat and soybeans. Production and marketing costs are the principal factors, on the supply side, affecting competitiveness. "policy market costs," as opposed to true economic costs in a free market, were used as these reflect the cost of doing business in the real world.

Of the countries considered, Thailand had the lowest landed costs for corn and Argentina for wheat and soybeans at both Rotterdam and Japan. The major reason was low farm production costs, particularly low commercial fertilizer, machinery and land costs. Argentine farmers achieve good yields with little or no commercial fertilizers because of fertile soils and use of advanced crop-cattle rotation systems. The abolishment of input taxes may stimulate greater use of inputs and higher yields. The lifting of agricultural export taxes in Argentina would probably increase land prices.

The U.S. dominates the world corn market and is the price setter in that market. This domination may continue for some time as the U.S. has a comparative cost advantage in corn production, apart from Argentina and Thailand. Both Argentina and Thailand, although low-cost producers, are somewhat limited by land and climate constraints but could increase yields with new technologies and favorable government policies. Brazil, although a large corn producer, is a high cost producer and appears to have a comparative advantage in soybean production when compared to the U.S. Brazilian farmers may not be as sensitive to relative corn and soybean price changes as U.S. farmers. In the event of soybean price declines, U.S. farmers may produce more corn and less soybeans, whereas Brazilian farmers may maintain their soybean production levels.

Apart from Brazil, Canada, and France, the U.S. has a competitive disadvantage in wheat. Relatively high production costs (both variable and fixed) are the main cause. The U.S. may lose more of its market share in the future to Argentina, Australia, and some E.C. countries. Apart from Argentina, competition in the world wheat market is at present mainly among developed countries.

With regard to soybeans, it is clear that the two middle-income countries, Argentina and Brazil, have a cost advantage relative to the U.S. Brazil appears to have a comparative advantage in soybean production because of high corn and wheat production costs. It also has considerable potential to expand production because of vast land resources and with the use of new technologies.

Improving infrastructure and port facilities will enhance the middle-income countries' competitive advantage. The U.S. may gradually lose its dominant share of the world soybean market to South American countries, mainly Argentina and Brazil.

Generally, production costs, which are dependent on suitability of soil and climate, technology, management expertise, and government policies appear to be the most important element in determining the cost competitiveness of a country. Variable costs are generally dominant in middle-income countries and fixed costs in high-income countries. Major reasons for production cost differences per ton between developed and developing countries appear to be due to fertilizer, general overhead, capital replacement and land costs.

The U.S. is the major exporter of all three commodities considered and has a major influence on export prices. Also, since the U.S. is a relatively high cost producer, particularly of wheat and soybeans, and since support prices have been above market clearing levels, world prices have tended to be relatively high. This benefits low-cost countries since they are able to capture economic rents.

Most countries have inadequate production cost data, which has complicated this comparative cost study. More research is required in this area as well as 1) the potential for increased production in various countries, 2) the commodities in which a country has a comparative advantage, and 3) the effects of government policies and programs on the cost structures of major export commodities.

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Appendix 1

PRODUCTION AND MARKETING COSTS OF CORN IN VARIOUS COUNTRIES (U.S. DOLLARS, MID-1986 PRICE LEVEL AND EXCHANGE RATE)

Particulars	ARGENTINA		BRAZIL		SOUTH AFRICA		THAILAND		UNITED STATES			
									OVERALL		LAKE STATES AND CORN BELT	
Yield/Hectare (m. tons)	3.36		2.22		1.98		2.07		6.43		6.77	
Variable Costs	Per MT	$	Per MT	$	Per MT	$	Per MT	$	Per MT	$	Per MT	$
Seed	14.06		6.07		4.01		2.77		7.26		7.09	
Fertilizer and Lime	--		28.15		24.45		0.44		22.43		22.57	
Chemicals	0.54		0.48		6.25		0.26		7.55		7.51	
Custom Operations	16.83		--		0.59		21.03		2.70		2.39	
Fuel and Lube	7.17		18.47		11.78		--		7.51		5.40	
Repairs	5.46		4.62		6.65		1.59		4.82		3.94	
Drying	--		--		--		--		2.88		3.19	
Hired Labor	--		--		1.17		15.11		0.66		0.57	
Miscellaneous	--		13.01		3.48		1.11		0.41		0.32	
Interest on Variable Expenses	1.54		2.48		2.74		1.67		2.48		2.36	
Total Variable Cost	45.60	53.5	73.28	49.4	61.12	56.5	43.98	55.6	58.70	49.2	55.34	48.3
Fixed Costs												
General Farm Overhead	--		2.10		1.32		3.39		6.96		6.44	
Taxes and Insurance	6.74		3.79		0.75		--		6.45		6.50	
Capital Replacement	6.16		9.49		13.57		1.99		13.80		12.73	
Labor	8.17		20.82		7.32		15.35		5.63		4.81	
Interest on Nonland Capital	4.58		4.25		6.65		2.63		5.20		4.79	
Land Charge	13.97		34.65		17.41		11.82		22.48*		23.89*	
Total Fixed Cost	39.62	46.5	75.10	50.6	47.02	43.5	35.18	44.4	60.52	50.8	59.16	51.7
Total Production Cost	85.22	100	148.38	100	108.14	100	79.16	100	119.22	100	114.50	100
Marketing Cost	30.46		37.37		35.60		33.92		25.10		25.10	
Total Cost	115.68		185.75		143.74		113.08		144.32		139.60	
Yield/Acre (bushels)	53.44		35.38		31.54		32.92		102.27		107.73	
Production Cost/bushel	2.17		3.77		2.75		2.01		3.03		2.91	
Marketing Cost/bushel	0.77		0.95		0.90		0.86		0.64		0.64	
Total Cost/bushel	2.94		4.72		3.65		2.87		3.67		3.55	
Exchange Rate (Currency/ U.S. $)	0.89 Aus		CZ $13.84		R 2.54		26.28 B		$1.00		$1.00	

MT = metric ton.

*1985 land cost.

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APPENDIX 2

PRODUCTION AND MARKETING COSTS OF WHEAT IN VARIOUS COUNTRIES (U.S. DOLLARS, MID-1986 PRICE LEVEL AND EXCHANGE RATE)

Particulars	ARGENTINA		BRAZIL		SOUTH AFRICA		UNITED STATES				CANADA		AUSTRALIA		UNITED KINGDOM	
							OVERALL		CENTRAL PLAINS							
Yield/Hectare(m. tons)	1.81		1.16		1.46		2.24		2.18		1.94		1.50		6.98	
	PER MT	%	PER MT	%	PER MT	%	PER MT	%	PER MT	%	PER MT	%	PER MT	%	PER MT	%
Variable Costs																
Seed	9.72		36.15		8.41		8.11		5.57		8.57		3.84		8.91	
Fertilizer and Lime	-		62.66		23.50		21.32		12.76		12.87		7.64		19.71	
Chemicals	4.98		63.75		8.26		3.56		1.36		7.62		6.68		13.92	
Custom Operations	11.49		-		2.71		6.13		7.36		0.85		11.46		4.57	
Fuel and Lube	7.99		32.93		14.44		13.90		12.92		9.65		10.81**		4.23	
Repairs	6.66		10.20		9.32		9.63		9.51		13.44				9.12	
Hired Labor	-		-		0.16		0.95		0.94		-		-		-	
Miscellaneous	-		10.51		7.69		0.91		0.26		2.09		-		3.23	
Interest on Variable Expenses	1.43		7.57		3.50		3.66		3.38		2.57		2.02		2.93	
Total Variable Cost	42.26	51.2	223.79	73.9	77.99	57.7	68.27	42.8	54.02	37.1	57.66	35.5	42.45	35.5	66.62	48.0
Fixed Costs																
General Farm Overhead	-		4.08		1.67		9.45		9.80		2.92		9.58		12.25	
Taxes and Insurance	5.97		2.21		1.26		9.51		10.46		7.09		3.36		-	
Capital Replacement	6.51		20.92		18.01		25.30		25.10		30.22		22.51		11.02	
Labor	7.11		8.44		6.97		11.69		11.10		15.71		7.56		15.70	
Interest on Nonland Capital	4.90		9.96		8.57		9.19		9.12		10.81		8.16		5.67	
Land Charge	15.55		33.75		20.64		26.67*		26.18*		37.92		25.55		27.39	
Total Fixed Cost	40.34	48.8	79.36	26.2	57.12	42.3	91.21	57.2	91.76	62.9	104.67	64.5	77.02	64.5	72.03	52.0
Total Production Cost	82.60	100	303.15	100	135.11	100	159.48	100	145.79	100	162.33	100	119.47	100	138.65	100
Marketing Cost	29.50		41.29		32.50		30.60		34.37		30.80		35.40		30.00	
Total Cost	112.10		344.44		167.61		190.08		180.15		193.13		154.87		168.65	
Yield/Acre (bushels)	26.81		16.92		21.67		33.25		32.42		28.76		22.27		103.62	
Production Cost/bushel	2.25		8.25		3.68		4.34		3.96		4.42		3.25		3.77	
Marketing Cost/bushel	0.80		1.12		0.88		0.83		0.94		0.84		0.97		0.82	
Total Cost/Bushel	3.05		9.37		4.56		5.17		4.90		5.26		4.22		4.59	
Exchange rate (Currency U.S. $)	0.89 Aus		CZ$13.84		R2.54		$1.00		$1.00		C$ 1.39		A $1.51		0.66	

MT = metric ton
* = 1985 land cost
** includes fuel, lube and repairs

APPENDIX J

PRODUCTION AND MARKETING COSTS OF SOYBEANS IN VARIOUS COUNTRIES (U.S. DOLLARS, MID-1986 PRICE LEVEL AND EXCHANGE RATE)

Particulars	ARGENTINA		BRAZIL				UNITED STATES			
			Double-crop/Wheat		Soybeans alone		OVERALL		LAKE STATES & CORN BELT	
Yield/Hectare (m. tons)	2.10		1.80		1.80		1.95		2.27	
	PER MT	%	PER MT	%	PER MT	%	PER MT	%	PER MT	%
Variable Costs										
Seed	16.31		14.57		14.57		12.87	0.35	11.30	
Fertilizer and Lime	-		50.90		55.04		13.04	0.255	8.33	
Chemicals	9.43		14.82		14.82		24.53	0.667	20.04	
Custom Operations	27.67		-		-		5.08	0.58	3.56	
Fuel and Lube	13.26		20.76		20.85		16.26	0.4427	12.98	
Repairs	10.44		6.55		6.58		10.22	0.248	8.22	
Hired Labor	-		-		-		1.93	0.0525	1.62	
Miscellaneous	-		5.89		6.09		0.37	0.01	0.29	
Interest on Variable Expenses	2.69		3.06		4.01		4.06	0.1104	3.01	
Total Variable Cost	79.80	53.6	117.35	63.5	121.96	61.5	88.36	36.3	69.35	31.0
Fixed Costs										
General Farm Overhead	-		2.59		2.59		14.61		14.93	
Taxes and Insurance	13.82		3.27		4.67		15.96		18.08	
Capital Replacement	10.96		13.43		13.49		33.07		30.15	
Labor	13.87		6.45		6.48		16.68		13.79	
Interest on Nonland Capital	8.10		6.46		6.48		11.51		10.59	
Land Charge	22.35		35.25		42.74		62.95*		67.06*	
Total Fixed Cost	69.10	46.4	67.45	36.5	76.45	38.5	154.78	63.7	154.60	69.0
Total Production Cost	148.90	100	184.80	100	198.41	100	243.14	100	223.95	100
Marketing Cost	36.14		43.50		43.50		24.60		24.60	
Total Cost	185.04		228.30		241.91		267.74		248.55	
Yield/Acre (bushels)	31.24		26.78		26.78		28.95		33.70	
Production Cost/bushel	4.05		5.01		5.40		6.62		6.10	
Marketing Cost/bushel	0.99		1.18		1.18		0.67		0.67	
Total Cost/bushel	5.04		6.21		6.58		7.29		6.77	
Exchange Rate (Currency/U.S.$)	0.89Aus		CZ$13.84		CZ$13.84		$1.00		$1.00	

MT = metric ton
* = 1985 land cost

Mr. **Lindsay**. Senator, most of the soybeans grown in the United States are competitive with feed grains and we have a big problem in that soybeans and corn ratio usually is a 2.5 to 1. At that point, they will grow soybeans.

This whole last year, soybean corn ratio has been 3.5 to 1 so obviously the selection has been corn because of that in the United States.

Mr. **Adams**. I think another thing that concerns us, as domestic producers also is the long range implications to the industries which we support, not only the processing industry, but the feeding industries, the broilers and feedlots and cattleman, too.

It is just an economic fact that the production of oats at the final end will accumulate where the production of the feed grains are because of cost. Eventually what we will be doing is exporting all our feeding industry at the same time.

Senator **Melcher**. James, from a farmer's standpoint, it is more profitable to be in the corn program and grow more acres of corn, relative to soybeans, at this time?

Mr. **Adams**. Yes, sir. In my case, I maximize my corn acres within the program because of the fact that I do get Government payment for those, which makes up the difference. So I think it is very obvious, in this case, if all of us maximize our corn acres and minimize our bean acres.

Senator **Melcher**. You mentioned that three figures, that producers would like to see a program that shows $5.02 per bushel for soybeans. Then you mentioned the loan rate set at $4.77 and the possibility of using certificates to make up 50 cents.

Mr. **Adams**. Yes, sir.

Senator **Melcher**. First of all, when you say you want to realize $5.02 and the loan rate is at $4.77, there is a 25 cent differential there. How would that be justified?

Mr. **Adams**. Quite frankly, that is the goal. I think what we have decided, and this is not firm policy yet, and I emphasize that. The State presidents were together this past weekend. The $5.02 is a goal, but I think the emphasis I heard from the State presidents is emphasis on program and so, if you give me a choice, I think I would come down with putting in a program that would be most favorably received by the farmers.

Senator **Melcher**. What are soybeans worth today or yesterday?

Mr. **Adams**. At home, I have been out of touch the last few days, but roughly $5.50 a bushel is what the prices were at home when I left. I think this is one reason we feel very strongly that there is no perfect time to implement a marketing loan, but if you can implement it when the prices are above the loan level, then you can do it at minimum cost to the farmer and minimum costs, in fact, maybe even a possibility of a profit to the Government.

Mr. **Lindsay**. In Georgia, the price is $5.50 to the farmer. It is about 30 cents lower up in Iowa.

Senator **Melcher**. About $5.20.

Mr. **Lindsay**. $5.20 I think is where it stands.

Senator **Melcher**. What are CCC stocks, as far as either one of you know, as of this week?

Mr. **Adams**. I think they have been coming down rather rapidly, what 300 million bushels?

Mr. **Lindsay**. They did not sell 300 million bushels.

Mr. **Adams**. No, the stocks.

Mr. **Lindsay**. I think the last figure I heard is right at 100 million bushels that the CCC has sold so far.

Senator **Melcher**. 180?

Mr. **Lindsay**. No, 100 million approximately.

Mr. **Adams**. CCC stocks are at 220 million.

Mr. **Lindsay**. Sold?

Mr. **Adams**. Left.

Senator **Melcher**. So they have sold about 40 percent, close to 40 percent of what was previously CCC's stocks.

Mr. **Adams**. Yes, sir.

Senator **Melcher**. The way the program works, there might be a lot of other soybeans under loan, though?

Mr. **Adams**. If you continue with the present program, yes, sir. Of course, that presupposes which way the price moves, too.

Senator **Melcher**. When you say CCC stocks are 240, does that mean that is what they actually own?

Mr. **Adams**. Yes, sir.

Senator **Melcher**. Then there is what, another 500 or 600 million bushels under loan?

Mr. **Adams**. Yes.

Senator **Melcher**. There is that?

Mr. **Adams**. I do not know the exact figure of that. 120 million bushels roughly under loan at present, I think.

Senator **Melcher**. How many?

Mr. **Adams**. About 120 million bushels under loan.

Senator **Melcher**. That is all they have under loan?

Mr. **Adams**. Yes, sir.

Senator **Melcher**. Then stocks have come down dramatically?

Mr. **Adams**. Yes, sir. Quite frankly, our private forecast, with ASA, say that USDA's figures are a little bit high as to what they are extrapolating out at the end of the season to.

Senator **Melcher**. This is the middle of June, or the tail end of June. When do you start harvesting?

Mr. **Adams**. October.

Senator **Melcher**. Then everybody is in it, you are like the Corn Belt?

Mr. **Adams**. Yes, sir. We are on that.

Senator **Melcher**. Probably then, before harvest starts, there is a likelihood that soybeans under loan and soybeans in CCC holdings will continue to come down?

Mr. **Adams**. Yes, sir, I think that would be a fair assumption. I think another reason, though, we would like to see a marketing loan implemented right now is the fact that the signal would be given to the Brazilians just prior to their planting time. I think it is very important that we not delay this too long because once their crop is planted obviously they cannot take it out of the ground.

So what we would like to see is that production be put under pressure prior to their planting time. They, of course, will be planting in September.

Senator **Melcher**. At these price levels, however, farmers that can raise corn or soybeans, will continue to opt for the corn program, will they not?

Mr. **Adams**. Yes, sir, because of the Government payments.

Senator **Melcher**. Will there be some that think that soybeans might be worth $6.50 next year in the increase?

Mr. **Adams**. I am sure there are. There are a few but it is a difference between a bird in the hand and speculation on that point, too.

Senator **Melcher**. But you would think that this type of proposal, that you made regarding the marketing loan or marketing loan with certificates included, would assure getting the soybeans out onto the market and not in storage?

Mr. **Adams**. Yes, sir.

Senator **Melcher**. You agree with that, Jim?

Mr. **Lindsay**. I totally agree with that.

Senator **Melcher**. Senator Bond.

STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator **Bond**. Thank you very much, Mr. Chairman.

I apologize for being a little late.

I wish to commend you for the hearings on the 1985 farm bill. We believe that, as the USDA officials who have testified before us have indicated, that we have established the basis for a sound long-term recovery in American agriculture. I think there are some very positive points in there.

Certainly we are very pleased to welcome both Mr. Adams and Mr. Lindsay. Missouri is very proud, not only of its soybean producers, but of the national headquarters in St. Louis and gentleman we are delighted to have you here and particularly to hear you talk about $5.50 beans. We feel that is an extremely good sign.

In addition, I am pleased to be one of the 43 signers of the letter to Secretary Lyng about developing a soybean program. I understand that that response is due next Wednesday and would certainly concur with you that this would be a very good time to let world soybean producers know that we are not going to compete with a high support level, but we will be competing on the basis that other program crops are competing.

Secretary Lyng and Ambassador Yeutter were talking to us before they went to the GATT sessions and Secretary Lyng indicated that it was his opinion that American farmers do have a comparative advantage. I was delighted to hear your figures about the higher variable cost of production, both in Argentina and Brazil, because that certainly provides the underpinning that we need as we assure our soybean farmers, as we go into negotiations to achieve a free and fair world market in soybeans, that we are going to come out in a strong position.

First I would ask both of you, and maybe Mr. Adams and then Mr. Lindsay would like to comment on it, about the meetings at Punta del Este. Do you feel that this is a step in the right direction? Do you have any comments on that?

Mr. **Adams**. Yes, sir, but I think we would be very insistent from ASA's point of view, that zero bindings be retained. We would not want that traded away at all. We are very supportive of the objective.

Of course, we have to make a judgment at the end as far as results. But we are very supportive. The State presidents this past week have endorsed this again and we hope the voting delegates will endorse it in a month.

Mr. **Lindsay**. We agree with the ASA on that position.

Senator **Bond**. I was in London 2 weeks ago talking with some members of the EC about our serious concern about the fats and oils tax, and we promised at that time that retaliation, at least in the view of the Senate and I believe in the view of the administration, would not be limited just to agricultural products. We would take on industrial products as well, from countries, for example, like Germany, and who may be inclined for other reasons to support the oils tax.

Can you give us an idea of the impact on soybean producers and perhaps on the processing industry in the United States if that tax were imposed?

Mr. **Adams**. We have seen some estimates, private estimates when ASA—of the range of $8 to $9 per acre immediate impact of every farmer for every soybean acre grown in the United States. Of course, that is our biggest market. Roughly one out of every four rows goes into the market, and that is the reason we are concerned. But the long range impact is just going to be astronomical.

Senator **Bond**. But $8 to $9 per acre in income depression?

Mr. **Adams**. Yes, sir, that is correct.

Senator **Bond**. Do you have any comments on the ag trade title of the trade bill? I assume that you have seen what was passed out of this committee as part of the trade bill which will be very promptly discussed on the floor today. Are there any suggestions or guidance that you can give us as we debate the trade bill, particularly the ag title?

Mr. **Adams**. We support it. We support it.

Senator **Bond**. I have found in discussions that the prospect of a full-scale marketing loan impact a couple of years down the road certainly has their attention.

Mr. **Adams**. Yes.

Senator **Bond**. Gentlemen, we appreciate your testimony and it is a pleasure to work with you. Thank you, Mr. Chairman.

Senator **Melcher**. Senator Cochran.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator **Cochran**. Mr. Chairman, thank you very much. I want to add my words of welcome to our witnesses and all of those who will be testifying today. I think this is an important session that we are having in reviewing the status of the farm bill of 1985 and listening to suggestions about ways that the programs that are administered under that law can be improved, if they can be. I think it is understood that we do see opportunities for improvement.

I do not think we should attempt a substantial rewrite of the whole bill, and I do not think that is what the witnesses are suggesting at all. But where we can make modifications, if it is possible through the legislative process or through influencing the administration to use the authority that is contained in the 1985 bill that make profits more likely for farmers, than we ought to act. I think that is the message that we are hearing from these witnesses.

I have a more detailed statement, Mr. Chairman, which I would like to have inserted in the record of the hearing.

Senator MELCHER. It will be made part of the record.

[The prepared statement of Senator Cochran follows:]

STATEMENT OF SENATOR THAD COCHRAN

Subcommittee on Agricultural Production
and
Stabilization of Prices

Hearing on June 25, 1987

Mr. Chairman, I would like to take this opportunity to welcome the participants to this morning's hearing. I think it is important to receive testimony on the status of the farm bill from the organizations represented here this morning. As you recall, the full committee heard testimony on this same issue on March 18 of this year.

FOOD SECURITY ACT IS A COMPROMISE

*We are all aware that the formulation of agricultural policy involves a complex set of tradeoffs. Usually the resulting compromise leaves all interest groups less than totally satisfied. The key point in this statement is all. All groups are less than fully satisfied.

*The relationship among the key interest groups is such that their respective positions on any given policy issue are often directly opposite. This conclusion is documented in a study by the National Center for Food and Agricultural Policy released in April 1987. The study is entitled The 1985 Farm Bill Revisited: Midcourse Corrections or Stay the Course.

*The study compared the impact of six policy options with current law using key economic variables for the major interest groups--producers, agribusiness, and consumers. The study concludes that, while the Food Security Act of 1985 may not be the first choice of any group, it is not the last choice either, as is the case for each of the major alternatives. (I have a chart that compares the projected impact of the different options, which I would like to have included for the record.)

*This relationship indicates that the Food Security Act of 1985 is a true compromise and explains why there will always be some level of criticism. On the other hand, all the major proposals currently being offered to amend the Food Security Act represent extreme policy positions, and, therefore, are not superior public policy alternatives.

COMPELLING REASONS TO "STAY THE COURSE"

At the March hearing which I mentioned, one of the witnesses, Lynn M. Daft of Abel, Daft & Early, presented four compelling reasons for "staying the course"--continuing the farm policy that was established by the Food Security Act of 1985. Those arguments are still sound. Basically, they are:

1) **The objectives** that are implicit in current policy **continue to be appropriate.** The brightest future continues to lie in the direction of an agricultural economy that is predominantly market-oriented, competitive in world markets and dependent on Federal policy only for protection from major economic disturbance.

2) **We need a stable policy.** The influence of Federal farm policy on the agricultural sector is significant, and therefore should be consistent and dependable.

3) **Current farm policy is working.** There is "turnaround" talk across the country, not just from certain members of Congress or the Administration. (See Agricultural Economy Turnaround Data.)

4) **There are no superior alternatives.** As a matter of fact, the major alternatives being suggested today are options that were rejected during the 1985 farm bill debate.

The signs of revitalization cannot be dismissed as mere anecdotal evidence. Rather, they are reasons that compel us to "stay the course."

The question--what is appropriate federal agricultural policy--should continue being debated. We cannot be inflexible as we have been in the past. However, all economic evidence that I am aware of today suggests the appropriate action is to "stay the course."

Mr. Chairman, I will be interested in what our witnesses have to say about this question.

COMPARISONS

(Snapshot of 1990/91)

PRODUCERS		AGRIBUSINESS		HOUSEHOLDS	
Net Farm Income Highest → Lowest	$ bil.	Acreage Planted Highest → Lowest	Mil.Ac.	Food and Tax Cost Lowest → Highest	$/Yr.
Mandatory Controls with Export Subsidies	$ 41	Low Target Price with Partial Decoupling	211	Decoupling with Transitional Income Support	
Two Price		FSA85	207	Low Target Price with Partial Decoupling	$ 3,040
Extend Market Loan	$ 27	Decoupling with Transitional Income Support		FSA85	$ 3,101
FSA85	$ 25	Extend Market Loan	204	Extend Market Loan	$ 3,111
Low Target Price with Partial Decoupling	$ 20	Two Price		Two Price	
Mandatory Controls without Export Subsidies		Mandatory Controls with Export Subsidies	169	Mandatory Controls without Export Subsidies	$ 3,308
Decoupling with Transitional Income Support		Mandatory Controls without Export Subsidies	153	Mandatory Controls with Export Subsidies	$ 3,482

The 1985 Farm Bill Revisited: Midcourse Corrections or Stay the Course
Study published April 1987 by the National Center for Food and Agricultural Policy

Senator **Cochran**. Thank you very much, Mr. Chairman.

Senator **Melcher**. Senator Conrad.

Senator **Conrad**. In the interest of time, Mr. Chairman, I will yield back my time.

Senator **Melcher**. Thank you both very much. We appreciate your testimony.

The next witness is Bob Bor, with Bishop, Cook, Purcell and Reynolds of Washington, DC. Bob, I have been encouraged by others who have testified before the House Agriculture Committee to do what you used to do when you were on the House Agriculture Committee: feed the pertinent questions to the witnesses, or to the members of the committee so we could ask intelligent, sometimes gripping questions of the witnesses. So be prepared, would you, Bob?

STATEMENT OF ROBERT M. BOR, MEMBER, LAW FIRM OF BISHOP, COOK, PURCELL AND REYNOLDS, ON BEHALF OF THE U.S. RICE PRODUCERS LEGISLATIVE GROUP, ACCOMPANIED BY GRAHAM PURCELL, SENIOR PARTNER, WASHINGTON, DC

Mr. **Bor**. Mr. Chairman, it is indeed a pleasure to be here today. I am testifying today on behalf of the U.S. Rice Producers Legislative Group on the marketing loan program for rice. The group consists of the principal producers of rice from the major rice producing States. I am accompanied here today by Graham Purcell, who is senior partner of the law firm of Bishop, Cook, Purcell and Reynolds.

My testimony today is quite different from the testimony of those who preceded me because the rice producers are, indeed, very satisfied with the marketing loan program and with the current provisions of the 1985 farm bill. I would like to recognize the tremendous work, the constructive work that was done by Senator Cochran and Senator Pryor who are the architects of the marketing loan program.

The marketing loan program, in the case of rice has worked remarkably well in the very brief period since the farm bill was enacted, and augurs well for the future with promise of major benefits, both for the rice industry and for the economy as a whole.

For example, for the marketing year which began August 1, 1986, rice exports are estimated to increase to 80 million hundredweight from 58.7 million hundredweight in the previous marketing year. And the prior marketing year had 3½ months of which were covered by the marketing loan. This shows great progress in a short time. A more striking contrast is to compare exports for the 9-month period last year just before the marketing loan program became effective with the same 9-month period this year. The statistics show a 60 percent jump in exports.

The principal objectives of the marketing loan program are to make rice available on the market at competitive prices so as to encourage increases in exports and domestic use, while at the same time protecting farm income. In addition, it has the benefit of moving rice directly into private commercial channels instead of forcing it into Government hands through loan forfeitures. It also stimulates the local farm economy and provides an orderly transition of the rice industry from Government reliance to market orientation.

Now let us go back a bit to discuss briefly what the situation was just before enactment of the 1985 farm bill. The rice industry had lost its competitiveness in world markets and Government stocks were building up to unprecedented levels. Despite the acreage reduction programs, the carryover of rice had increased from some 16 million hundredweight to 64 million hundredweight of rough rice in the 4-year period of the 1981 farm bill.

In addition, rice exports had declined some 37 percent. The decline in commercial exports was very, very sharp. In 1985 alone, commercial exports fell more than 500,000 tons. The U.S. share of world trade in rice fell from some 23 percent in 1981 to 17 percent in 1985. During that period, the share that Thailand enjoyed of the world market increased correspondingly.

As a matter of fact, imports while small, grew rapidly in this 4-year period up to over some 2 million hundredweight. If there had not been something done to make drastic changes in the rice program, we would be deluged with imports at this time.

Now what did the 1985 farm bill do? The loan rate was reduced from $8 a hundredweight in 1985 to $6.84 a hundredweight for 1987, and it is going to fall further to $6.50 a hundredweight. This was coupled with a marketing loan program under which the Secretary is required periodically to announce the prevailing world market price for rice. A producer may redeem his loan at the prevailing world market price announced by the Secretary if it is less than the loan level, but not below a floor specified in the law.

Now as a result of this program, exports have increased already by a very significant amount and they are anticipated to continue to increase during the balance of the period of the 1985 farm bill and to recover to the level where it was at the time the 1981 farm bill was enacted. This should result in restoring the U.S. share of world trade again to about 23 percent.

It typically takes several years for a major change in U.S. farm programs to have its full effect on foreign production and consumption decisions. It is not easy to develop new or recapture lost export markets. Yet the marketing loan program in the relatively short time since it became effective is well on the way to achieving its desired objectives.

The signal that this act sends to the world is that the United States will remain a resolute competitor should deter the expansion of rice acreage in the world, particularly in countries only marginally suited for rice production, thereby increasing for us opportunities for trade. Low world prices at the same time should encourage increased consumption throughout the world, also leading to increases in world rice trade.

There was a white paper that was commissioned by the U.S. Rice Producers Legislative Group that expands on the economic benefits of the marketing loan program for rice. This was prepared by the economic consulting firm of Abel, Daft, and Earley and copies of this have been widely distributed throughout the Senate.

I should recognize that there are Federal budget costs that apply to the marketing loan program that are reflected in the marketing loan payments that are not fully offset over time by elimination of a paid land diversion and savings in loan outlays. These costs, however, are heavily front-loaded and most of the costs are behind us already. More than 70 percent of the estimated cost of the program over the 5-year period of the bill will have been incurred by conclusion of the program for the 1987 crop. Only 30 percent of those costs are estimated to occur in the balance of the period covered by the 1985 farm bill.

These costs, however, are more than offset by the effects of the marketing loan program on local economic activity over the 5-year period. In contrast with the costs of the program, the benefits are heavily back-loaded with almost 80 percent materializing in the last 3 years of the period. It is anticipated that stocks under the marketing loan program should be drawn down close to the 30 million hundredweight target that was set in the 1985 farm bill by the summer of 1989.

Look at what has happened already to CCC inventories in the brief period since the program became effective. Let us go back to July 31, 1985, the end of the crop-year for the 1985 crop. At that time the CCC stocks amounted to 47.7 million hundredweight. A year later—as of July 31, 1986, and this was some 3 months after the marketing loan program became effective—Government stocks were reduced to 43.6 million hundredweight. Today, it is estimated that on July 31 of this year Government stocks will be reduced down all the way to 15.5 million hundredweight. So that is a drop in 2 years from 47.7 million hundredweight in Government stocks down to 15.5 million hundredweight in Government stocks. During the last few years there is an unpaid acreage reduction program that has been in effect. The current program provides for an unpaid diversion of some 35 percent, and it is expected that it will be necessary to increase production next year to provide the rice that we need to meet domestic and export demand.

I talked yesterday with the folks over in ASCS and they indicate that they think 35 percent is too much of an ARP, and that for the next year it is going to have to be probably at a lower level. The industry itself has been pressing for a lower level because the demand is out there and everyone believes that the increased production will flow into additional outlets for export and domestic use.

This increased rice production should have benefits that extend beyond the farm level to the rice milling and export operations and to agricultural input industries. Expanded production increases demand for seed, fertilizer, hired labor, farm machinery, and other capital equipment. There should also be gains to the service industries associated with the process of readying and delivering rice for export, plus gains to the ports themselves. The direct economic impact of higher production and expanded exports should be significant, in terms of increased employment, improvement of the balance of trade and an increase in Federal, State, and local taxes.

The continued success of the rice marketing loan program, in our view, is dependent on maintaining the program intact for the duration of the farm bill. If we maintain our resolute stance as a competitive exporter of rice it will discourage production elsewhere in the world. Over time, world prices should stabilize at significantly higher levels. Already they have edged up substantially from where they were earlier this year. It is also important to continue to maintain the farm income protection that is provided by the Food Security Act of 1985 so that producers can have a positive cash-flow and continue to produce as world prices rise.

Mr. Chairman, we fully expect that this program will continue to be an outstanding success story for American agriculture. We are very pleased to have the opportunity to appear here today, and we would be pleased to respond to any questions.

[The prepared statement of Mr. Bor follows:]

STATEMENT BY ROBERT M. BOR
ON BEHALF OF THE U.S. RICE PRODUCERS LEGISLATIVE GROUP
BEFORE THE
SENATE AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES SUBCOMMITTEE
SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

JUNE 25, 1987

I am pleased to testify today on behalf of the U.S. Rice Producers Legislative Group on the marketing loan program for rice. The Group consists of the principal producers of rice from the major rice producing states. My name is Robert M. Bor, a member of the law firm of Bishop, Cook, Purcell and Reynolds that represents the Group in Washington, D.C. I am accompanied at the table by Graham Purcell, senior partner of the law firm.

We are proud of the marketing loan program for rice contained in the 1985 Farm Bill. It has worked remarkably well in the brief period since enactment of the 1985 Farm Bill and augurs well for the future with promise of major benefits to the rice industry and the economy as a whole. For the marketing year which began August 1, 1986 rice exports are estimated to increase to 80 million cwt. from 58.7 million cwt. in the previous marketing year (3 1/2 months of which were covered by the marketing loan). This shows great progress in a short time. A more striking contrast is to compare exports for the 9 month period last year just before the marketing loan program became effective with the same 9 month period this year. The statistics show a 60 percent jump in exports.

The principal objectives of the marketing loan program are to make rice available on the market at competitive prices so as to encourage increases in exports and domestic use, while at the same time protecting farm income. In addition, it has the benefit of moving rice directly into private commercial channels instead of forcing it into government hands through loan forfeitures. It also stimulates the local farm economy and provides an orderly transition of the rice industry from government reliance to market orientation.

At the time of enactment of the 1985 Farm Bill, the rice industry in the United States had lost its competitiveness in world markets and government stocks were building up to unprecedented levels. Exports historically accounted for almost 60 percent of disappearance but in recent years have fallen to less than 50 percent of disappearance. Despite the acreage reduction programs that were in effect for rice, the carryover of rice in the period 1981 through 1985 increased from 16.5 million cwt. to 64.7 million cwt. of rough rice.

During the four year period covered by the 1981 Farm Act, U.S. rice exports declined 37 percent, from 3 million metric tons on a milled basis in 1981 to 1.9 million metric tons in 1985. The decline in commercial exports was even sharper. In 1985 alone, commercial exports fell more than 500,000 tons. The U.S. share of world trade in rice fell from 23 percent in 1981 to 17 percent in 1985. In contrast, Thailand's share of the world market rose from 24 percent to 35 percent during the same period. Four major markets in which Thailand increased its market share at the expense of the United States include the European Community, Saudi Arabia, South Africa and Nigeria.

Imports, while small, grew rapidly between 1981 and 1985. Imports rose from 0.2 million cwt. of milled rice to 2.2 million cwt. and threatened to keep on growing sharply due to the large differential between prices in the United States and prices in the world market.

Why did this happen? After enactment of the 1985 Farm Bill world prices fell precipitously while the loan rate was maintained at a constant level, well in excess of the world market price. A weak world economy and debt problems of developing countries caused total world rice trade to stagnate and the strength of the dollar reduced U.S. competitiveness during that period. But the major reason for the decline in export demand was the high level of U.S. price support in relation to world market prices.

Under the 1985 Farm Bill, the loan rate was reduced from $8.00 a cwt. in 1985 to $6.84 a cwt. for 1987, and thereafter will fall further to $6.50 a cwt. This was coupled with a marketing loan program under which the Secretary is required periodically to announce the prevailing world market price for rice. A producer may redeem his loan at the prevailing world market price announced by the Secretary if it is less than the loan level, but not below a floor specified in the law. The floor increases from 50 percent of the loan rate in 1986 to 70 percent of the loan rate in 1989 and 1990.

As I indicated earlier, exports have increased already by a significant amount from the period just before the effective date of the program. Exports are anticipated to continue to increase during the balance of the period of the 1985 Farm Bill and to recover to the level where it was at the time the 1981 Farm Bill was enacted. This should result in restoring the U.S. share of world trade to about 23 percent.

It typically takes several years for a major change in U.S. farm programs to have its full effect on foreign production and consumption decisions. It is not easy to develop new or recapture lost export markets. Yet the marketing loan in the relatively short time since it became effective is well on the way to achieving the desired objectives.

The signal that this Act sends to the world that the U.S. will remain a resolute competitor should deter the expansion of rice acreage in the world, particularly in countries only marginally suited for rice production, thereby increasing opportunities for trade. Low world prices at the same time should encourage increased consumption throughout the world also leading to increases in world rice trade.

A white paper has been developed by the consulting firm of Abel, Daft, and Earley that expands on the economic benefits of the marketing loan program for rice. The study contained in the paper examines the marketing loan program in terms of its cost to the Government and benefits tc farmers and to local and national economies by comparing the marketing loan to a so-called basic loan. It concludes that on balance, the marketing loan program is superior to a program that supports the market price at the basic loan level. According to the analysis in the report, the economic benefits of the marketing loan program are significant. Consumers pay less for rice, and increased exports and production stimulate more economic activity which, in turn, should create additional jobs and tax revenues.

There are Federal budget costs that apply to the marketing loan program reflected in marketing loan payments that are not fully offset over time by elimination of a paid land diversion and savings in loan outlays. These costs, however, are heavily front-loaded. More than 70 percent of the estimated cost of the program over the five-year period of the Bill will have been incurred by conclusion of the program for the 1987 crop. Only 30 percent of those costs are estimated to occur in the remaining three-years covered by the 1985 Farm Bill.

These costs however, are more then offset by the effects of the marketing loan on local economic activity over the five-year period. In contrast to the costs of the program, the benefits are heavily back-loaded with almost 80 percent materializing in the last three years of the period. It is anticipated that stocks under the marketing loan program should be drawn down close to the 30 million cwt. target in the 1985 farm bill by the summer of 1989.

Look at what has happened to CCC inventories in the brief period since the program became effective. On July 31, 1985, the end of the marketing year for the 1985 crop, the CCC stocks amounted to 47.7 million cwt., on July 31, 1986 they were reduced, after three months of the marketing loan program, to 43.6 million cwt. Today it is estimated that CCC stocks at the end of the current marketing year will be reduced to 15.5 million cwt. At present there is an unpaid acreage reduction program of 35 percent and it is expected that it will be necessary to increase production next year to provide the rice to meet domestic and export demand.

This increased rice production should have benefits that extend beyond the farm level to the rice milling and export operations and to agricultural input industries. Expanded production increases demand for seed, fertilizer, hired labor, farm machinery, and other capital equipment. There should also be gains to the service industries associated with the process of readying and delivering rice for export, plus gains to the ports themselves. The direct economic impact of higher production and expanded exports should be significant, in terms of increased employment, improvement of the balance of trade and an increase in Federal state and local taxes.

The continued success of the rice marketing loan program, in our view, is dependent on maintaining the program intact for the duration of the farm bill. If we maintain our resolute stance as a competitive exporter of rice it will discourage production elsewhere in the world. Over time, world prices should stabilize at significantly higher levels. Already they have edged up substantially from earlier this year. It is also important to maintain the farm income protection provided by the Food Security Act so that producers can have a positive cash flow and continue to produce as world prices rise. If the program continues unchanged during the balance of the term of the Food Security Act, we fully expect that the rice program contained in the 1985 Farm Bill should be an outstanding success story for American agriculture.

Mr. Chairman, we thank you for the opportunity to appear here today and would be pleased to respond to any questions.

Senator **Melcher**. Thank you very much, Bob. I want to recognize the first subcommittee chairman I ever had, Graham Purcell, when he was in the House of Representatives and chairman of the Livestock and Grains Subcommittee. I take it, Graham, that you concur in this testimony that is given by Bob Bor. I guess that is right.

Mr. **Purcell**. Yes, sir, Mr. Chairman, I do. And I am really just sitting here in case anybody were to ask something that I knew anything about, which with Bob being present is unlikely to happen.

Mr. **Bor**. I am left speechless, Mr. Chairman.

Senator **Melcher**. It sounds like, Bob, that you are getting a firm endorsement there by one of the senior partners in that big law firm you come from.

I think that the proof of the pudding in the case of rice is that the CCC stocks are down. When we attempt to store these commodities you get a double-barrel effect, both negative, of the fact that the stocks themselves in storage overhang the market and depress the price. Then it costs us money to store them.

So the marketing loan seems to have worked very beneficially for Uncle Sam, and producers, and consumers, not just here but all over the world. I think when we see rice prices real low, it is not only harmful to our producers, but pretty harmful to those in developing countries too. If our stocks disappear, we will contribute to letting the world price come up.

Mr. **Bor**. Mr. Chairman, we think this program is a great program, but I would like to add one comment, and that is, the success of any program like this depends on access to world markets. One of the difficulties that we have right now is our inability to export to a country like Japan. We hope that the administration will continue to press the Japanese to open up their markets, because there is tremendous potential there for exports of rice.

The Japanese are subsidizing their rice industry in unheralded amounts, and we think that our quality rice would be much in demand over there. Certainly at the price at which we export it, rice would be a commodity which would be welcomed. The rice industry has been pressing the administration, and Senator Pryor has introduced a bill which is designed to that end.

We would counsel the administration and the Congress to keep pressing because opening rice markets in Japan and some of the other Asiatic countries which are currently closed will be very helpful to the U.S. economy. We have great potential there and we would like to realize it.

Senator **Melcher**. What is the price of rice in Japan?

Mr. **Bor**. I do not know exactly, Mr. Chairman, but I think it is something like five times what it is, what the world price is.

Senator **Melcher**. And that would be about $30 a hundredweight?

Mr. **Bor**. Somewhere in that neighborhood.

Senator **Melcher**. I have compared their retail beef prices and what I found was almost unbelievable until I was assured that indeed that was the price charged at retail outlets for beef, which was about four to five times U.S. prices. So that is a heavy subsidy.

Senator Cochran, you and Senator Pryor have already been recognized as the architects of the marketing loan concept. The results have been pretty good on rice and cotton. What can you tell us?

Senator **Cochran**. Mr. Chairman, thank you very much. I am flattered and grateful for the complimentary remarks of Mr. Bor and of you, Mr. Chairman. I think we have seen some very welcome success in the rice program. And I think there has been a great deal of teamwork that has made this happen. The administration has administered the program, I think in a very sensitive and thoughtful way. The industry has produced, and I think that is a key factor that should not be overlooked.

I wonder in connection with the program whether or not you can attach any dollar values to the percentages of the costs that you mentioned had already been incurred and are expected to be incurred in this program. We had a lot of complaints about how the marketing loan program had been very, very expensive. And I think you point out that we have seen a lot of economic benefit accrued as a result of the marketing loan program.

Those benefits are not identified in any kind of dollar volume way in your prepared statement, but you do talk about the fact that most of the cost of the program has already been incurred. Around 70 percent, I think you said, will have been incurred after the 1987 program year and that only 30 percent of the cost will be left under the farm bill.

What does that amount to? What is that 30 percent in the future that we can expect the program to cost for the duration of the life of the farm bill?

Mr. **Bor**. Senator Cochran, I would say that the differences in cost for the remaining 3 years—and this is according to the white paper which was prepared by the economic consulting firm—are estimated at only $223 million, which is less than the $247 million of additional Federal tax revenues that the marketing loan is expected to generate in the 3-year period. And when I say differences in costs, I am contrasting this kind of a program with a program when you have a regular—a basic loan program where the loan rate is maintained at the level that is set out in the act.

This paper costed out what the Government expense would be under that kind of a program, which is, you might say much like what the soybean program is at the present time, as contrasted with a program, a marketing loan program where you can redeem the commodity at the world price. The marketing loan program would cost a little more than the basic loan program, but it is less than the additional Federal tax revenues which is expected to be generated by the marketing loan program over that 3-year period.

It is also estimated that the extra local economic activity that is going to be generated over the 5-year period of the marketing loan is going to be close to $2 billion. These benefits, as I mentioned, are mainly occurring in the balance of the period of the farm bill, in the last 3 years of the farm bill.

So what you need to look at is, while it may seem that the marketing loan program is a little more expensive than the basic loan program, it is offset by the extra tax revenues that it generated, and by the extra benefits to the local economy of close to $2 billion. That is very substantial——

Senator **Cochran**. It seemed to me, too, that by comparing this program with the old program, you can see clearly that the old program created surplus stocks, which had to be stored and which depressed prices even further. What you are saying is that prices are going to stabilize under this new program at higher levels. That should be encouraging, not just to U.S. producers but to rice producers all over the world.

Mr. **Bor**. Senator, that is accurate. Already we have seen prices come up. Early this year, you might say, in looking at our own program the Thai Government started subsidizing their exports of rice. They bought rice at a high price and then sold it into the export market at a lower price, and the world price fell substantially.

But we met that price. The result was that their program was discontinued, and the price has gone up somewhere in the neighborhood of close to 40, 50 cents a hundredweight since the beginning of this year. And we expect that over time the world price is going to continue to rise. It is for that reason that this program should cost a good deal less as time progresses. We expect that as the world price rises, naturally the amount of money that the Government will spend for the program will diminish.

Senator **Cochran**. We heard from some of our administration officials that the Thai Government has been complaining pretty loudly about our marketing loan program. What you say though is that our exports are growing to the extent that we are making up the ground that we lost in recent years, and what we are really seeing is that our percentage of the total world market is not really expected to be much greater, if at all greater, than the 23 percent which we had back in 1979.

Do you see that as unfair? I do not know how anyone can complain that our program is not fair if we are simply reclaiming lost ground.

Mr. **Bor**. Senator, you are exactly on mark. And as a matter of fact, my understanding is that since the marketing loan program became effective the Thai Government has really not lost out in the world market. There has been new opportunities, and the United States has moved into those new opportunities. Our exports have grown, but it has not been at the expense of the Thai Government.

It is our hope that this same trend will continue. That we will just take advantage of new opportunities as they occur. We expect demand to increase as the world population is increasing. We expect that the marginal exporters will be getting out of the world market. They should not be there to begin with. It is for these reasons that we anticipate that we will regain the share that we lost in the course of the last 4 years.

Senator **Cochran**. You mention the Japanese market as having a great potential for us and others who produce and sell at the international marketplace. Does Japan now import any rice at all from anybody?

Mr. **Bor**. No, this is a completely closed market.

Senator **Cochran**. So it is not that they are just singling out U.S. rice producers to keep out of their market, they do not let anybody in; is that correct?

Mr. **Bor**. That is correct. This is a closed market. As a matter of fact, if some of the world travelers bring small handfuls of rice into Japan, they run into trouble.

Senator **Cochran**. What about China? Does that market have any alternative for export sales? They are self-sufficient, too, at this point as I understand it, and may be trying to export. Are they exporting rice?

Mr. **Bor**. China is a country that is difficult to predict. They have great variations in weather, and one year they could be a big factor in world production, and the next year because of the weather situation, they could be an importer of commodities. And we have seen that—I think that has been the case with cotton, it has been the case with some other commodities, with the grains.

As they modernize their techniques, one would expect that their production would increase, but so is their population. Their population is—although they are trying to control the expansion in population, it is still increasing, so it is hard for them to maintain production necessary to meet their own internal demands and at the same time be a tremendous new factor in the world market.

Senator **Cochran**. I remember when they were importing large quantities of cotton from us back in the seventies, and then became aggrieved at our import quotas on finished textile products and diversified purchasing and were buying from many other countries, but none from the United States. We lost all of that market at one point, to the Sudan and Mexico, Pakistan or other sources. They looked to mainly Third World developing countries for their imports.

I wondered what their practices were in the rice market, if they were similar. Do you know?

Mr. **Bor**. I would like to supplement my testimony with a statement for the record, if I might.

[The material follows:]

China is normally an exporter of 1 million tons of rice annually. While this represents less than 1 percent of China's domestic rice production, it makes China the fourth largest rice exporting country in the world—after Thailand, the United States and Pakistan.

China normally imports limited quantities of rice. In the preceding 5 years, China's imports have averaged 155,000 tons. These purchases have been made primarily for diplomatic and/or logistical reasons and purchased almost exclusively from Thailand. In 1987 China is expected to import record quantities of rice. China to date has purchased an estimated 500,000 tons of rice and many believe that China's buying is not yet complete. Indeed, it is possible that China's rice imports will equal its exports for the first time in recent memory.

Observers are divided whether this year's buying level is an anomaly or heralds the beginning of a new trend. China's buying, at least in part, is due to bad weather. But part of the current shortfall in production is due the impact of recent economic liberalization which has resulted in some grain farmers switching to cash crops. Further, economic liberalization has resulted in a significant increase in consumer purchasing power. There are reports that growing affluence in the countryside has stimulated food consumption, especially rice. In addition, some rice experts indicate that it will be difficult for China's future production gains to keep up with its growing population.

On balance, it seems likely that China's rice imports in the medium term will significantly exceed those of recent years.

Senator **Cochran**. I do not really have any other questions except just one. As an indication of how export-dependent this industry is, what is the percentage of the rice that we produce in the United States that we sell in the export market, do you know?

Mr. **Bor**. I would say it is probably about 60, 65 percent is sold in the export market.

Senator **Cochran**. But if we were not competing, if we were not able to produce and sell at a competitive price in the international marketplace and this program got abolished or modified to the point that it was ineffective, we could pretty well figure that more than half of our production would have to be eliminated. Milling activity would be cut by more than 50 percent. This would be a big blow to our rice industry, would it not, if we were to lose these markets?

Mr. **Bor**. It would be tremendous, Senator. Really, the rice industry depends on the export market for survival. And if we are unable to continue to export at competitive prices, it would be disastrous. Without the Government programs obviously, it would be a disaster.

Mr. **Purcell**. Senator, let me say one thing. At one time, as Senator Melcher mentioned, when he and I were working together on these kind of things on the House side many years ago, and just a figure I remember, we, the United States, produced about 2 percent of the world rice and furnished 60 percent of the world commerce in it at that time. Now that was during the Vietnam war.

But we have become more than just a residual supplier. We have now a legitimate, established market that we temporarily lost, and we are gaining some of that now. But the export part of the rice producers' industry and all the infrastructure is absolutely dependent upon an export market.

Senator **Cochran**. Thank you, Graham.

Mr. **Bor**. Senator, I find I have some figures here that would show back in 1985 China produced 178 million metric tons of rice, and they were probably one of the leading producers—the leading producer of rice in the world.

Senator **Cochran**. Who is this now?

Mr. **Bor**. China. But in terms of exports, I do not have a figure at hand, and I would be happy to supply that for the record.

[See page 506 for the figure on exports.]

Senator **Melcher**. Thank you very much, Bob and Graham, for your testimony. It is very helpful.

The next witness is Billy Carter, from Scotland Neck, North Carolina, a cotton producer and president of the Southern Cotton Growers, Inc.

STATEMENT OF W.L. (BILLY) CARTER, COTTON PRODUCER AND PRESIDENT, SOUTHERN COTTON GROWERS, INC., SCOTLAND NECK, NC, ON BEHALF OF THE NATIONAL COTTON COUNCIL OF AMERICA

Mr. **Carter**. Thank you, sir. I am W.L. (Billy) Carter, a cotton producer from Scotland Neck, NC. I am serving this year as president of Southern Cotton Growers, Inc., a regional cotton producers association representing farmers in North Carolina, South Carolina, Georgia, Alabama, Florida, and Tennessee. I am the Southeastern States' director on the board of the National Cotton Council, and serve on the council's producer steering committee. It is in this behalf I testify today.

In passing the cotton title of the current farm law, Congress had several objectives in mind. Essentially, these were to: one, build greater market orientation into the cotton program; two, regain lost export markets; three, provide an income safety net for producers; and four, contain program costs.

The program is meeting all major objectives. Both domestic and export markets are strong. Expansion of foreign acreage has been stopped. U.S. taxpayers are benefiting from increased economic activity generated by greater domestic production, sales, and mill consumption. The Cotton Belt's rural economy is strengthening. Government costs are declining rapidly, and are projected to be down substantially in future years.

USDA now expects domestic mill use to be 7.3 million bales—up 300,000 bales from its January estimate, and 1.6 million bales above average mill use in the last 5 years. U.S. Department of Commerce data for April indicate that the annual rate consumption of cotton through the first 9 months of this crop-year is somewhat more than 7.3 million bales. Furthermore, the seasonally adjusted, annual rate of consumption has gone from 7.4 million bales in January to 7.9 million bales in April. It is possible that final mill consumption could exceed 7.3 million bales.

Quarterly data on mill consumption of cotton reveal a consistent uptrend throughout the last 8 quarters, going from an annual rate of 5.4 million bales in the first quarter of 1985 to an annual rate of 7.5 million bales in the first quarter of this year.

Exports are now expected to be 6.7 million bales, down slightly from USDA's 6.8 million bale estimate in January, but up 296 percent over the 1.969 million bales exported during the 1985–86 season.

The result of these estimates is a total offtake of 14 million bales—26 percent above average offtake over the past 5 years and the second largest offtake in 20 years. Ending stocks will be approximately 5.2 million bales, down 44 percent from beginning stocks and at a manageable level.

Export sales commitments for 1987–88 now exceed 2.1 million bales. These sales have averaged about 200,000 bales per week in recent weeks.

USDA estimates a total 1987–88 offtake of 13.5 million bales, and ending stocks on July 31, 1988, of 3.8 million bales. There should be a smaller acreage reduction required for participation in the 1988–89 cotton program. Another 25 percent reduction could run a substantial risk of shorting the cotton market.

The adjusted world price calculated weekly by USDA for Strict Low Middling 1¹⁄₁₆ inch has strengthened steadily, rising from 22.63 cents per pound on August 1, 1986, to 68.93 cents per pound on June 18, 1987. That price is about 3 cents above the peak reached by the 1986 spot price last July.

Government cost exposure is reduced in direct relation to the increase in price paid to farmers. With prices at current levels—about 15 cents over loan price—deficiency payments are greatly reduced, there are no producer option payments (POP), no first handler certificates, and CCC loan activity is curtailed. CCC-owned stocks have been eliminated, and what few bales are acquired are bought up immediately by the trade.

The cotton title was written into law with the full knowledge that the highest program costs would be in the first year—after which costs would move much lower, even as benefits continued to increase.

Early USDA expectations for Government cost of the cotton program during the 1987 fiscal year were in the range of $1.5 to $3 billion. However, rapidly improving market conditions have reduced the cost to the vicinity of $1.4 billion.

Using very conservative price and offtake assumptions, the Congressional Budget Office projects cotton program costs to drop to the vicinity of $700 million by the 1991 fiscal year. The CBO projection assumes cotton prices will not rise above the loan. A more likely prospect is for prices to continue to rise and for Government costs to continue to fall. The National Cotton Council projects that program costs will likely fall to near $550 million annually, and that estimate is reinforced by the recovery we have already seen in cotton prices.

Mr. Chairman, the United States cotton industry looks forward to the day when we can depend entirely on the market for income. Under the current program, we are already moving in that direction. There will be no inventory protection payments in 1987 and 1988; if prices stay at current levels or continue to improve, there will be no marketing loan payments; and deficiency payments will be considerably lower. The target price and loan level are being lowered.

The cost of the cotton program, which historically averages about 10 percent of total farm program costs, has been reduced to about 8 percent for fiscal year 1986 and is predicted to fall to about 4 percent during fiscal years 1988 through 1991.

The program is working reasonably well for both industry and Government and should be retained for the full length of the act—through 1991. Thank you very much.

[Material not covered in Mr. Carter's oral remarks follows:]

Exhibit 1

U.S. COTTON SUPPLY AND OFFTAKE*
(1,000 480-lb. Bales)

	1985-86	1986-87	1987-88p
Beginning Stocks	4,102	9,348	5,200
Production	13,418	9,731	12,000
Imports	32	10	10
Total Supply	17,552	19,089	17,210
Mill Use	6,399	7,300	7,000
Exports	1,969	6,655	6,000
Total Offtake	8,368	13,955	13,000
Unaccounted For	-164	-66	-90
Ending Stocks	9,348	5,200	4,300

Source: USDA, May 1987.

Exhibit 2

QUARTERLY U. S. MILL CONSUMPTION
OF COTTON
Seasonally Adjusted Annual Rate
(Mil. Bales)

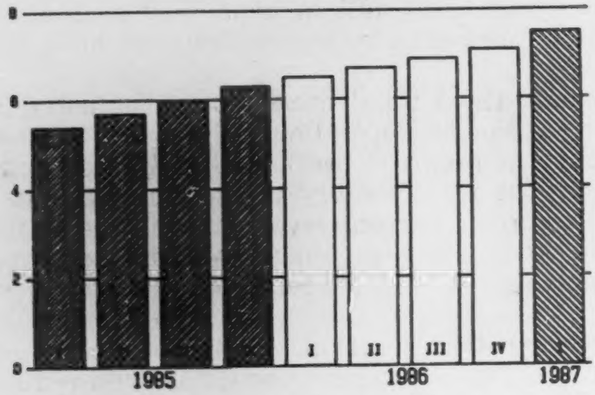


Exhibit 3

INDEXES OF COTTON UTILIZATION
(1981-82=100%)

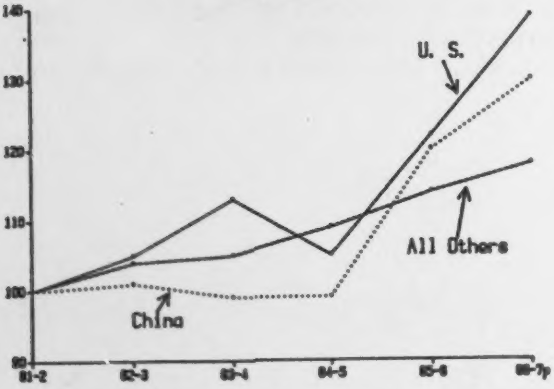


EXHIBIT 4

Adjusted World Price

Listed below are Adjusted World Price figures to date for Upland Cotton adjusted to U.S. Location and SLM 1-1/16", Micronaire 3.5-4.9

Announced by USDA	Effective Period 12:01 a.m.-Midnight		North Europe	Total Adjust.	Adjusted World Price	Coarse Ct. Adj.
07-03-86	07-04	07-10	39.04	14.12	24.92	2.47
07-10-86	07-11	07-17	38.60	14.12	24.48	2.68
07-17-86	07-18	07-24	37.62	14.12	23.50	2.55
07-24-86	07-25	07-31	36.75	14.12	22.63	2.40
07-31-86	08-01	08-07	36.49	14.12	22.37	3.33
08-07-86	08-08	08-14	36.44	14.12	22.32	3.36
08-14-86	08-15	08-21	36.76	14.12	22.64	3.58
08-21-86	08-22	08-28	37.29	14.12	23.17	3.81
08-28-86	08-29	09-04	37.54	14.07	23.47	4.09
09-04-86	09-05	09-11	38.90	14.03	24.87	4.35
09-11-86	09-12	09-18	40.96	13.98	26.98	4.66
09-18-86	09-19	09-25	43.28	13.90	29.38	5.31
09-25-86	09-26	10-02	47.62	13.86	33.76	5.34
10-02-86	10-03	10-09	48.83	13.80	35.03	5.81
10-09-86	10-10	10-16	51.04	13.74	37.30	5.97
10-16-86	10-17	10-23	51.87	13.67	38.20	5.02
10-23-86	10-24	10-30	51.89	13.60	38.29	4.62
10-30-86	10-31	11-06	50.95	13.51	37.44	3.93
11-06-86	11-07	11-13	51.15	13.45	37.70	3.70
11-13-86	11-14	11-20	52.60	13.40	39.20	3.59
11-20-86	11-21	11-28	52.90	13.36	39.54	2.98
11-28-86	11-28	12-04	53.40	13.33	40.07	2.07
12-04-86	12-05	12-11	55.77	13.27	42.50	2.24
12-11-86	12-12	12-18	58.31	13.20	45.11	1.43
12-18-86	12-19	12-25	60.25	13.14	47.11	0
12-29-86	12-26	01-01-87	61.91	13.10	48.81	0
01-02-87	01-02	01-08	63.70	13.06	50.64	0
01-08-87	01-09	01-15	64.89	13.01	51.88	0
01-15-87	01-16	01-22	65.42	12.95	52.47	0
01-23-87	01-23	01-29	66.53	12.91	53.62	0
01-29-87	01-30	02-05	66.28	12.86	53.42	0
02-05-87	02-06	02-12	65.86	12.82	53.04	0
02-12-87	02-13	02-19	66.24	12.78	53.46	0
02-19-87	02-20	02-26	66.32	12.75	53.57	0
02-26-87	02-27	03-05	65.39	12.07	52.69	0
03-05-87	03-06	03-12	64.23	12.65	51.58	0
03-12-87	03-13	03-19	63.03	12.58	50.45	0
03-19-87	03-20	03-26	63.00	12.53	50.47	0
03-26-87	03-27	04-02	63.17	12.46	50.71	0
04-02-87	04-03	04-09	63.02	12.39	50.63	0
04-09-87	04-10	04-16	62.88	12.31	50.57	0
04-16-87	04-17	04-23	65.74	12.24	53.50	0
04-23-87	04-24	04-30	67.68	12.18	55.50	0
04-30-87	05-01	05-07	68.95	12.13	56.82	0
05-07-87	05-08	05-14	71.19	12.08	59.11	0
05-14-87	05-15	05-21	74.63	12.03	62.60	0
05-21-87	05-22	05-28	77.37	11.97	65.40	0
05-28-87	05-29	06-04	79.88	12.01	67.87	0
06-04-87	06-05	06-10	79.06	12.01	67.05	0
06-11-87	06-12	06-18	79.71	12.01	67.70	0

EXHIBIT 5

BUDGET OUTLAYS: COMMODITY PROGRAMS
USDA ESTIMATE
($Billion)

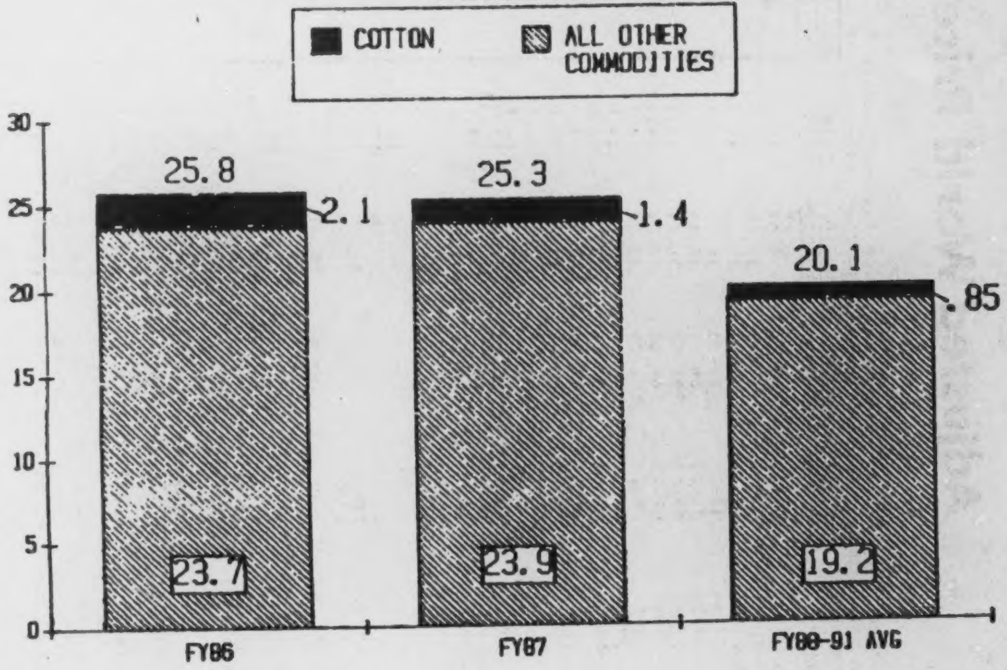
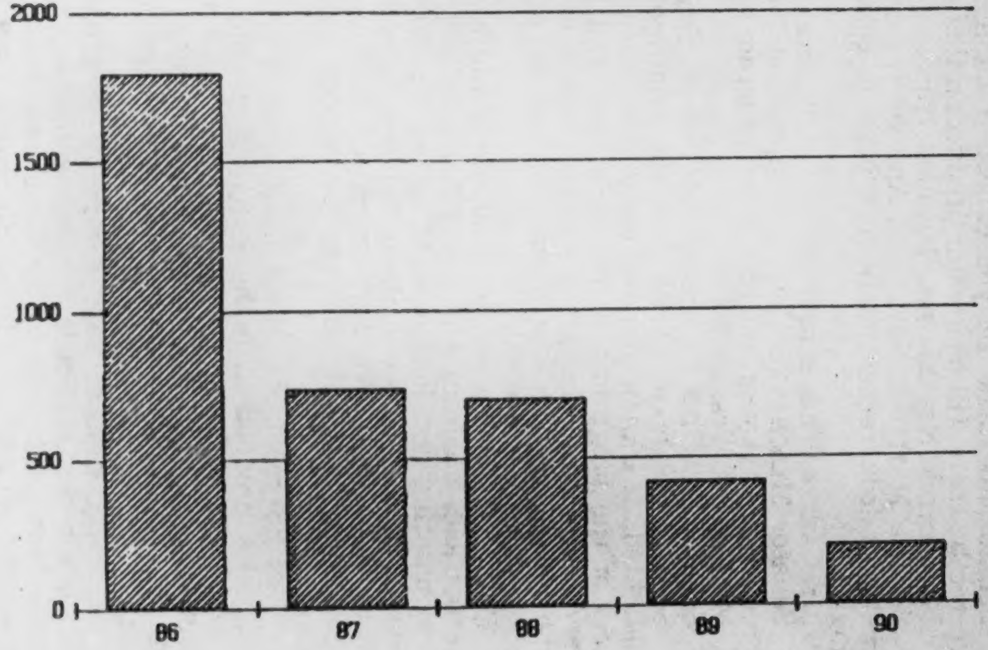


EXHIBIT 6

FSA-85 COTTON PROGRAM COST
($Million)



Senator **Melcher**. Do you expect, if I followed your testimony correctly, there will be greater production this year?

Mr. **Carter**. Not this year but next year.

Senator **Melcher**. Next year. And yet the data that you present makes it look rather likely that price is going to remain in the high 60's?

Mr. **Carter**. That is projections, yes, by most people.

Senator **Melcher**. So, just as you suggest that even with higher production next year, the cost of the program will go down.

Mr. **Carter**. Yes, sir.

Senator **Melcher**. Thank you very much. Senator Cochran.

Senator **Cochran**. Thank you, Mr. Chairman. Mr. Carter, I am delighted, as I know you and the whole industry are, with the success of the program that we have now, and the fact that prices have come up so strongly. I wonder if there is any way to point to the impact that this program has had on producer decisions in other parts of the world.

One of the things we were hoping would happen with the marketing loan program was that other producer nations would reassess planting decisions in light of the fact that the United States was sending a signal to them that we were going to stay in the farming business. We were going to continue to produce and we were going to sell at whatever the market price was in the world market.

What do you know about the impact of the program on other countries' production? Is there any information on that?

Mr. **Carter**. Senator, I do not have any figures with me. I can probably get them. I do know it has impacted the Chinese crop a great deal, and some of the other major exporting nations have cut back or at least not have increased.

Senator **Cochran**. Your testimony, as I understand it, is, that this is a program that is working well, the costs are continuing to come down—the costs to the Government are continuing to come down and we ought not to meddle with it right now.

Mr. **Carter**. That is exactly right, Senator. We are very pleased, and I think the producer is benefiting directly from the program.

Senator **Cochran**. I wish that every commodity group could testify to the same thing, then we could all rejoice. We do have some problems with the bill, and that is one reason we are looking at all of them, how it affects all of the different sectors of agriculture. We appreciate your being here and your testimony. Thank you for helping us this morning.

Mr. **Carter**. Thank you very much.

Senator **Melcher**. Thank you very much, Mr. Carter, for your excellent testimony. Carl Schwensen, executive vice president, National Association of Wheat Growers. Carl.

STATEMENT OF CARL SCHWENSEN, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. **Schwensen**. Thank you, Mr. Chairman. It is a pleasure to be here this morning. I want to apologize that we were not able to get a producer representative to appear at your subcommittee hearing, but they are either committed otherwise, or facing harvest conditions which are now accelerating in the Central Plains of the United States.

You have my prepared statement. What I would like to do is summarize it briefly and make a half dozen points that I think are relevant to the subcommittee's hearing this morning.

Unlike previous witnesses who were able to testify to remarkable results with regard to the operation of the 1985 farm act, the gains for U.S. wheat growers have been more modest. We expected when the bill was being written that results from the new policies that were implemented would begin to show up in a period of 2 to 3 years.

This prediction appears to have been quite accurate. We are in the current marketing season, which began June 1, beginning to see projections of some real success in terms of the operation of our program in removing stocks from the United States and the pressure it has created on our foreign competitors.

This is very important that we reverse our export trend. Over the past two seasons, if projections hold, we will have been able to increase our exports by 30 percent. We have reduced our stocks by about 130 million bushels. It is not a lot, but it certainly indicates that we are moving in the right direction. Our stocks in 1985 had been at a record level of 1.9 billion bushels, and the Government has held as much as 50 percent of these stocks in recent years. That percentage hopefully will be reduced as well.

The U.S. share of world wheat trade has also increased in the two seasons that wheat growers have operated under the Food Security Act of 1985. We have gone from a low level of 29 percent in 1985 to a level of 35 percent projected for 1987–88. That is off the mark of 42 percent that we feel is fair and normal, but again, moving in the right direction.

Competitive export pricing, the liquidity in the market that has been provided by generic certificates and the Export Enhancement Program have been the principal tools for the achievements that we have been able to gain in the last two seasons.

I think an additional benefit, following on Senator Cochran's comment of a moment ago, is to see reduction in acreage in competing exporting countries. We have seen a significant amount of reduction in Australia, which is a fierce competitor of ours. Likewise, acreage has gone out of wheat and into other commodities in Argentina. The change in Canada has been a bit slower, but this year the intentions appear to show something like a 7 percent decrease in production.

Our policies have also transferred pressure and responsibility to these competing exporting systems which they have been reluctant to accept. We have received strident criticism, particularly from the Australians. I think in many cases the situation is that they do not have the type of domestic farm program structure that we have. In fact, their farm program internally had been the U.S. loan rate. Until our policy changed, they were fully protected and were able to, essentially pick our bones in the world market.

That has changed. The market is more competitive, particularly with the Export Enhancement Program and with the additional support that this committee gave to that program in the trade bill market. We feel like the outlook is substantially improved for wheat growers.

This transition and this reversal of a very serious trend that appeared in the late 1980's has been possible without severe income losses to growers, and that has been principally because of the target price mechanism which has been in place. That has been critical for us to be able to competitively price our grain and begin to reduce stocks and reduce Government inventories without deep losses to farmers.

We are hopeful that the target price policy as established in the 1985 act can be continued as it was written. And also that the acreage reduction requirements, the unpaid set-aside for which growers are obligated to divert in return for program benefits, will not be increased above the present level of 27.5 percent.

Beyond that level, we think it sends, again the wrong signal to our competitors overseas indicating that we are fully willing to accept an even greater burden of adjustment in the world market. And also it contributes to significantly less economic production on the part of the producer when he might have as much as one-third of his base out of production.

That completes my testimony, Senator Melcher, and I would be pleased to respond to any questions that you might have.

[The prepared statement of Mr. Schwensen follows:]

Statement of Carl Schwensen
National Association of Wheat Growers
before the
Subcommittee on Agricultural Production
and Stabilization of Prices
Senate Committee on Agriculture
on the
Status of Farm Programs
June 25, 1987

Mr. Chairman and Members of the Subcommittee:

The National Association of Wheat Growers appreciates this opportunity to present its views on the status of farm programs. I am Carl Schwensen, executive vice president of the NAWG.

Wheat programs operating under the authority of the "Food Security Act of 1985" are now in their second season, and there has been adequate experience with these programs to draw some general conclusions.

First, we have seen a modest but helpful decline in excess wheat stocks since the 1985-86 marketing year. Supplies are projected to be reduced by 127 million bushels from the record 1.9 billion bushel level of 1985 by the end of the current marketing year next May 31. The most important improvement in the U.S. wheat situation has occurred in export utilization, although some gains have been made in domestic consumption as well.

U.S. wheat growers are heavily dependent upon export markets, and recovery in the industry is directly linked to improved trade performance. In 1985, a downturn in U.S. wheat exports resulted in domestic consumption exceeding export use for the first time since 1970. Again in 1986, domestic use exceeded export shipments. For 1987-88 the outlook is much improved. We expect exports to rise by about one-third from the 915 million bushel low of two years ago to a projected level of 1.225 billion bushels. Such gains in the export sector will significantly improve the wheat situation and reduce the share of excess stocks owned by the government which has been as high as 50 percent.

Increased utilization, the liquidity provided to the market by the use of generic certificates, and competitive pricing with the assistance of the Export Enhancement Program have largely accounted for our export gains. These achievements, however, would have come at a severe cost to farm income had not the $4.38 per bushel target price program for wheat been maintained.

A second result of current farm programs can be seen in market accomplishments. The U.S. share of world wheat trade has experienced a significant reversal since the advent of existing export programs. In 1985-86, the U.S. held only 29 percent of the world market, but our market share for 1987-88 is estimated to increase to 35 percent. This level of trade is not too far from the 38 percent level that the U.S. held four years ago, although it is still below the 42 percent level which we consider to be normal or fair.

Additionally, competitive pricing strategies initiated by the U.S. to counter the policies and practices of our rivals in the world market have brought helpful results. In Argentina, harvested grain area peaked in 1982-83 and then declined by 23 percent by 1986-87. A portion of this decline resulted from a shift in planted area away from grains to oilseeds, with other shifts back to pasture for cattle production. Australian grain area peaked in 1983-84 and was 15 percent below the peak in 1986-87. Wheat area has declined as profitability in sheep production and wool has increased. Canadian grain area has adjusted at a slower rate, but recent planting intentions point to a decline of 7 percent in 1987-88 wheat area.

It is evident that many countries are now on the brink of considering changes in their agricultural policies, and that the friction which we have seen in world wheat trade may have produced a desire for coordinated policies to deal with excess production capacity and lagging demand. This is of primary importance, since there is little future in competing for market share in a stagnant world market which is glutted with grain.

Finally, we have very serious concerns over changes in existing farm programs which will be considered to meet the directives of the FY 1988 Congressional budget resolution. The progress that has been made during the past two seasons in improving the wheat situation has been possible largely due to the level of income protection which has existed under the target price program. We believe that progress can continue to be made without altering the statutory wheat target price or raising the level of unpaid land diversion above the current 27.5 percent.

Mr. Chairman, I want to thank you again for this opportunity to appear before your subcommittee. I will be pleased to respond to questions at the appropriate time.

Senator **Melcher**. Carl, what was the 1985 harvested acreage, do you recall?

Mr. **Schwensen**. Let me check. Senator, it was about 67 million acres.

Senator **Melcher**. Sixty-seven?

Mr. **Schwensen**. The projection for the 1986–87 season is approximately 61 million acres.

Senator **Melcher**. That is 10 percent down then?

Mr. **Schwensen**. Right.

Senator **Melcher**. We have just talked about three commodities, soybeans who recommend a marketing loan; rice that has had a marketing loan since the 1985 act; and cotton that has had a marketing loan since the 1985 act. For wheat and corn, there is no marketing loan but we authorized, encouraged, badgered export enhancement. Is that not about the same thing?

Mr. **Schwensen**. Yes, that has been our judgment, Senator. That with a combination of the generic certificate program, which is made available to wheat growers in the Export Enhancement Program, we have effects very similar to those that the marketing loan has in the marketplace.

Senator **Melcher**. Let us see, in 1985 you produced over 2 billion bushels, maybe 2.4; 1986—I am just talking about when we harvested—1986 about 2.2; and this year likely to be 1.9 to 2?

Mr. **Schwensen**. Well, probably more than 2 billion, perhaps 2.1 billion.

Senator **Melcher**. Probably more than 2 billion—2.1?

Mr. **Schwensen**. Perhaps, yes.

Senator **Melcher**. Carrover at the end of the marketing year, which is June 1, has gone down slightly and is roughly, if we add up everything, whether it is in private hands or in CCC or farmer owned reserve, is roughly 1 year's crop, is it not?

Mr. **Schwensen**. That is correct, Senator.

Senator **Melcher**. And that is price depressing?

Mr. **Schwensen**. Absolutely.

Senator **Melcher**. At the same time this carryover is price depressing, the costs of deficiency payments in order to maintain some opportunities for keeping wheat producers on the land, just goes up dramatically, does it not?

Mr. **Schwensen**. Yes, sir.

Senator **Melcher**. Your testimony has been very kind to this administration. We have lost a lot of market, have we not?

Mr. **Schwensen**. The 1986 year was not a good one for us, Senator. It is not until January 1987 that we have begun to experience some recovery, and that is largely because of the new willingness on the part of the administration to be more aggressive with the Export Enhancement Program.

As you know, in January an announcement was made of a million ton export enhancement sale to China. Since that time we have had 4 million tons marketed to the Soviet Union. Perhaps there could be more. So it is really the use of EEP to juice up our marketing initiatives that has brought results to us.

Senator **Melcher**. Are we not sitting on an export enhancement sale of wheat to China at this minute?

Mr. SCHWENSEN. That is correct, Senator. There is another sizable Export Enhancement Program pending to Poland, one-half million tons.

Senator MELCHER. I just met yesterday with representatives of the flour millers from the Philippines. They do not now have an export enhancement offer and the word from Manila is, does the United States like Russia better than they like us? They advise me that they would like to engage in discussions yet this summer with the Department of Agriculture on an Export Enhancement Program that would be in the range of one-half million to 1 million tons. And they have not had the opportunity, have not been invited to or have not been allowed to.

Beyond that, is it not true that our programs for Public Laws 480 and 416, section 108 and, for that matter other programs for developing countries have been held back?

Mr. SCHWENSEN. We are certainly not proud of the way those programs have been administered, Senator.

Senator MELCHER. Does that mean they have been held back?

Mr. SCHWENSEN. They have not been properly initiated. I guess you could say they have been held back. But particularly the 416 program, there is a great deal more that we feel could be done with that. But the administration has been unwilling to see the benefits of using that program to stimulate economic development while also reducing stocks here in the United States.

Senator MELCHER. Is it not true that we could have reduced stocks about 25 percent over the last 2 years?

Mr. SCHWENSEN. That is correct, Senator.

Senator MELCHER. And if that type of action was followed through we would reduce stocks another 25 percent in the following year to build up markets?

Mr. SCHWENSEN. I think that is possible.

Senator MELCHER. Well, I have been very disappointed. I guess that is too mild. I have been outraged by the combination of the Department of Agriculture, the Department of State and the White House for all their own reasons, some of which are divergent and some of which conflict with each other, sitting on this surplus of wheat to the detriment of both the producer and the taxpayer and the further loss for all of us, loss of trade.

We intend to do something about it. I hope we will have the help of the wheat producers across the country.

Mr. SCHWENSEN. You certainly will, Senator.

Senator MELCHER. Thank you very much. Senator Cochran.

Senator COCHRAN. If you had to respond to an inquiry about whether you would prefer to continue with the program, continue with the provisions of the 1985 farm bill or modify them in any way, what would your response be? Would you prefer a modification to the 1985 act, one that would be engineered legislatively? And if so, what would that be?

Mr. SCHWENSEN. No, Senator, we are not advocating any changes in the 1985 act, although we were an early advocate of the marketing loan back in 1984 and 1985. We have been impressed by the resistance that we have seen from the administration in applying that to grains, and we have experienced a significant amount of market disruption just by discussion of that as a possibility.

At times the debate has created the appearance to the markets that a substantial price decline could occur through the implementation of a marketing loan and it has driven importers out of our market. They have postponed purchases, and it has caused traders to have to hedge their positions. And it, from time to time, has undermined the market. So, if it is not going to happen and it is not available, we do not want to advocate it.

Senator COCHRAN. Thanks very much for your help with the hearing.

Mr. SCHWENSEN. Thank you, Senator.

Senator MELCHER. Thank you very much, Carl. Our next witness is Mabry Foreman, president of the National Grain Sorghum Producers Association from Abernathy, TX. Mr. Foreman.

STATEMENT OF ELBERT HARP, EXECUTIVE DIRECTOR, NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION, ABERNATHY, TX

Mr. HARP. Mr. Chairman, I am Elbert Harp. I am replacing Mr. Foreman from National Grain Sorghum Producers Association because he is tied up in another meeting.

Senator MELCHER. All right, Elbert, we will be glad to hear from you.

Mr. HARP. I am Elbert Harp, executive director of the National Grain Sorghum Producers Association. Our office is in Abernathy, TX, and I appreciate the opportunity of presenting our views before your subcommittee today. You have my prepared statement, and I will follow suit and summarize.

From the grain sorghum farmers' standpoint there are several things that we are very concerned about with the present program and the administration of it.

First of all, we do not feel that the present program is working for feed grains. Number one, we are concerned about the high cost to the Government. Not that we are opposed to taking Government payments, but from the standpoint that we have a very serious reservation about the possibility of whether we will be able to continue payments at the present level.

We have farmers that are concerned about the present program, which has not added to the income levels at all, that are still going out of business at the rate of about 165 per day.

Most of my prepared statement has to do with the cost of production and what the farmers are receiving. I have zeroed in on the Texas High Plains area which is a typical production area of corn and sorghum, and the losses under this program this year are tremendous.

Another reason that we do not feel the present program is working for feed grains is that for sorghum we do not enter into the EEP program at all. Under the present program we have a lot of reservations about the program.

I would be glad to answer any questions.

[The prepared statement of National Grain Sorghum Producers Association submitted by Mr. Harp follows:]

NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION
TELEPHONE 806 298-2543 P.O. BOX 530 ABERNATHY, TEXAS 79311-0530

STATEMENT OF
NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION
TO
UNITED STATES SENATE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
JUNE 25, 1987

STATEMENT OF NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION

Mr. Chairman and Members of the Committee, National Grain Sorghum Producers Association is grateful for the opportunity to give its views on Senate Bill 658 and to present the needs and recommendations of sorghum producers.

No group or organization has worked longer and harder than National GSPA for the general concept that is outlined in Senate Bill 658. The basic feed grains provisions of this bill are very similar to a plan which our association has advocated since 1982.

The Food Security Act of 1985 has not worked for feed grains. The 1985 plan is based upon two false premises: (1) that lower prices will make U. S. grain competitive and regain our share of world markets, and (2) that U. S. farmers will be able to survive the process.

I would like to discuss the "survival" premise first. One report has estimated that 165 American farmers are going out of business every day. I know there are hundreds of conflicting reports being circulated about farm bankruptcies, but we all agree that the numbers are far too high for the economic health and security of the nation.

A recent study[1], by the Department of Agricultural Economics of Texas Tech University in Lubbock, states that--even with participation in the Government program--corn, soybeans and sorghum are below breakeven prices in all regions of Texas. The study also points out that these assumptions are based upon the 1987 program before any downward price adjustments, such as Gramm-Rudman-Hollings deficit reduction measures, worsen the situation.

Budget Projections for the Texas South Plains in 1987[2], published by the Texas Agricultural Extension Service, estimates net losses of $44.40 per acre on dryland sorghum, $27.25 on irrigated sorghum and $76.75 on irrigated corn. This Texas South Plains region is one of the major sorghum and corn producing regions of the nation and typical of much of the national production.

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[1] See Addendum 1.

[2] See Addendum 2:A, Addendum 2:B, and Addendum 2:C.

As for the competitiveness issue, drastic cuts in export prices and Export Enhancement bonuses have helped move a greater volume of some grains, but the carryout stocks will be reduced only slightly--if at all--in 1987.

The Grain Sorghum Promotion Federation has spent the past year analyzing world feed grain market and production regions. Based on this study, we believe it is impossible for the U. S. to undersell some of the other grain producing countries. A Sorghum Federation market survey team was in South America in March. The team reported that Argentine sorghum producers can break even delivering grain to the port for $35 per ton--about half the current export price of U. S. sorghum.

I said, in the beginning, that the basic provisions of the feed grain section of Senate Bill 658 are very similar to National GSPA's plan. There are, however, some differences which we believe should be considered in the final draft of S. 658. These differences are:

1. National GSPA believes that any program, to be effective and acceptable, must uniformly include all farms, regardless of size. Eliminating farms with sales above $500,000 from the supply-management program will remove a large share of the total production from the program. Therefore, to control production, the smaller farms will have to take more land out of production. Staggering the levels of set-aside requirements will be confusing and may alienate many producers whose support is needed for passage of a referendum.
2. National GSPA's plan would control production with acreage allotments. Marketing cards would be issued instead of certificates. Administration of a program where certificates must follow a grain or other commodity would be very costly and complicated. We believe acreage allotments, accurately adjusted, would be just as effective in controlling production and much simpler to administer.

We have estimated the cost of the National GSPA plan and compared it to the Texas A&M analysis of the Harkin Bill. The government cost of the two programs would be essentially the same.

National GSPA is addressing only the supply management and income protection portion of S. 658. We believe it is advisable, at this stage, to limit our support to this part of the bill. While other provisions of the bill may be needed and desirable, they may limit the possibility of passage.

We commend Senator Harkin and all the sponsors of S. 658 for their understanding of the American farm situation and for their leadership in presenting a program which can do much to improve that situation. We look forward to working with this committee in developing the best possible legislation to restore profitability to U. S. agriculture and economic stability to our nation.

ADDENDUM 1

A REGIONAL PROFITABILITY ANALYSIS
OF
FIELD CROP PRODUCTION IN TEXAS

by

Gary D. Condra
Jesse Reyes
Don E. Ethridge
Dean W. Hughes

Even with participation in the government program, the only crops which are above BEP are cotton (Blacklands, Coast, Valley, South and West), and wheat (High and Rolling Plains). Corn, soybeans, and sorghum are below BEP in all regions. Further, irrigated cotton in the Valley and South and West Texas are the only irrigated enterprises which are above BEP.

(In this text, BEP refers to Break-Even Prices.)

ADDENDUM 2:A

B-1241(C02)

TEXAS AGRICULTURAL EXTENSION SERVICE . THE TEXAS A&M UNIVERSITY SYSTEM
Zerle L. Carpenter, Director, College Station, Texas

TEXAS CROP ENTERPRISE BUDGETS

TEXAS SOUTH PLAINS DISTRICT

Projected for 1987

Projections for Planning Purposes Only .
Not to be Used without Updating after January 9, 1987.

B-1241(C02)

CORN, FURROW IRRIGATED
Texas South Plains District (2)
1987 Projected Costs and Returns per Acre

GROSS INCOME Description	Quantity	Unit	$ / Unit	Total	Your Estimate
CORN	130.000	bu.	1.7900	232.70	
DEFICIENCY PMT. CORN	130.000	bu.	1.2100	157.30	
Total GROSS Income				390.00	

VARIABLE COST Description	Quantity	Unit	$ / Unit	Total	Your Estimate
PREHARVEST					
SOIL TEST	1.000	acre	.250	0.25	
NITROGEN	200.000	lb.	.250	50.00	
PHOSPHATE	45.000	lb.	.250	11.25	
FERTILIZER APPL.	1.000	acre	2.250	2.25	
SEED	18.000	lb.	1.250	22.50	
HERBICIDE	1.000	acre	15.000	15.00	
INSECTICIDE+APPL	1.000	appl	10.000	10.00	
INSECTICIDE+APPL	1.000	appl	10.000	10.00	
SET ASIDE LAND	0.250	acre	17.900	4.47	
Fuel & Lube - Machinery		Acre		14.23	
- Irrigation		Acre		100.74	
Repairs - Machinery		Acre		2.64	
- Irrigation		Acre		9.89	
Labor - Machinery	2.866	Hour	5.501	15.76	
- Irrigation	2.191	Hour	5.499	12.05	
Total PREHARVEST				281.04	
HARVEST					
CUSTOM HARVEST	72.800	cwt.	.450	32.76	
CUSTOM HAULING	72.800	cwt.	.170	12.37	
Total HARVEST				45.14	
Interest - OC Borrowed	146.705	Dol.	0.120	17.60	
Interest - Positive Cash	-1.144	Dol.	0.053	-0.06	
Total VARIABLE COST				343.72	
GROSS INCOME minus VARIABLE COST				46.28	

FIXED COST Description	Unit	Total	Your Estimate
SET ASIDE LAND RCWF	acre	8.05	
Machinery and Equipment	Acre	30.75	
Irrigation	Acre	44.23	
Land	Acre	40.00	
Total FIXED Cost		123.03	
Total of ALL Cost		466.75	
NET PROJECTED RETURNS		-76.75	

ADDENDUM 2:B

B-1241(C02)

TEXAS AGRICULTURAL EXTENSION SERVICE . THE TEXAS A&M UNIVERSITY SYSTEM
Zerle L. Carpenter, Director, College Station, Texas

TEXAS CROP ENTERPRISE BUDGETS

TEXAS SOUTH PLAINS DISTRICT

Projected for 1987

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B-1241(C02)

SORGHUM, FURROW IRRIGATED (HEAVIER TEXTURED SOILS)
Texas South Plains District (2)
1987 Projected Costs and Returns per Acre

GROSS INCOME Description	Quantity	Unit	$ / Unit	Total	Your Estimate
DEFICIENCY PMT. SORGHUM	60.000	cwt.	2.0300	121.80	
SORGHUM	60.000	cwt.	2.8700	172.20	
Total GROSS Income				294.00	
VARIABLE COST Description	**Quantity**	**Unit**	**$ / Unit**	**Total**	
PREHARVEST					
SOIL TEST	1.000	acre	.250	0.25	
NITROGEN	160.000	lb.	.250	40.00	
PHOSPHATE	40.000	lb.	.250	10.00	
FERTILIZER APPL.	1.000	acre	2.250	2.25	
HERBICIDE	1.000	acre	5.000	5.00	
SEED	7.000	lb.	.800	5.60	
SEED	1.750	lb.	.800	1.40	
INSECTICIDE+APPL	1.000	appl	6.000	6.00	
INSECTICIDE+APPL	1.000	appl	6.000	6.00	
SET ASIDE LAND	0.250	acre	17.900	4.47	
Fuel & Lube - Machinery		Acre		13.95	
- Irrigation		Acre		59.70	
Repairs - Machinery		Acre		2.59	
- Irrigation		Acre		5.86	
Labor - Machinery	2.379	Hour	5.501	13.09	
- Irrigation	1.299	Hour	5.499	7.14	
Total PREHARVEST				183.31	
HARVEST					
CUSTOM HARVEST	1.000	acre	15.000	15.00	
CUSTOM HAULING	60.000	cwt.	.250	15.00	
Total HARVEST				30.00	
Interest - OC Borrowed	101.055	Dol.	0.120	12.13	
Interest - Positive Cash	-1.338	Dol.	0.052	-0.07	
Total VARIABLE COST				225.36	
GROSS INCOME minus VARIABLE COST				68.64	
FIXED COST Description		**Unit**		**Total**	
SET ASIDE LAND ROWF		acre		8.05	
Machinery and Equipment		Acre		31.63	
Irrigation		Acre		26.21	
Land		Acre		30.00	
Total FIXED Cost				95.89	
Total of ALL Cost				321.25	
NET PROJECTED RETURNS				-27.25	

B-1241(C02)

ADDENDUM 2:C

TEXAS AGRICULTURAL EXTENSION SERVICE . THE TEXAS A&M UNIVERSITY SYSTEM
Zerle L. Carpenter, Director   College Station, Texas

TEXAS CROP ENTERPRISE BUDGETS

TEXAS SOUTH PLAINS DISTRICT

Projected for 1987

Projections for Planning Purposes Only
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B-1241(C02)

GRAIN SORGHUM, DRYLAND (HEAVIER TEXTURED SOIL)
Texas South Plains District (2)
1987 Projected Costs and Returns per Acre

GROSS INCOME Description	Quantity	Unit	$ / Unit	Total	Your Estimate
DEFICIENCY PMT. SORGHUM	18.000	cwt.	2.0300	36.54	
SORGHUM	20.000	cwt.	2.8700	57.40	
Total GROSS Income				93.94	
VARIABLE COST Description	**Quantity**	**Unit**	**$ / Unit**	**Total**	
PREHARVEST					
SOIL TEST	1.000	acre	.250	0.25	
NITROGEN	40.000	lb.	.250	10.00	
PHOSPHATE	20.000	lb.	.250	5.00	
FERTILIZER APPL.	1.000	acre	2.250	2.25	
HERBICIDE	1.000	acre	5.000	5.00	
SEED	3.000	lb.	.800	2.40	
SEED	0.750	lb.	.800	0.60	
INSECTICIDE+APPL	0.500	appl	6.000	3.00	
SET ASIDE LAND	0.250	acre	17.900	4.47	
Fuel & Lube - Machinery		Acre		12.58	
Repairs - Machinery		Acre		2.37	
Labor - Machinery	2.244	Hour	5.501	12.34	
Total PREHARVEST				60.27	
HARVEST					
CUSTOM HARVEST	1.000	acre	12.000	12.00	
CUSTOM HAULING	20.000	cwt.	.250	5.00	
Total HARVEST				17.00	
Interest - OC Borrowed	40.764	Dol.	0.120	4.89	
Total VARIABLE COST				82.16	
GROSS INCOME minus VARIABLE COST				11.78	
FIXED COST Description		**Unit**		**Total**	
SET ASIDE LAND ROWF		acre		8.05	
Machinery and Equipment		Acre		28.14	
Land		Acre		20.00	
Total FIXED Cost				56.18	
Total of ALL Cost				138.34	
NET PROJECTED RETURNS				-44.40	

Senator MELCHER. You say that a market survey by a sorghum federation reported that Argentine sorghum producers can break even delivering grain to the port for $35 per ton?

Mr. HARP. Yes, sir.

Senator MELCHER. Is their production per acre greater than our sorghum producers?

Mr. HARP. They have a very productive area and they have the potential of expanding very rapidly in tremendous areas through Argentina. They are, as far as sorghum is concerned, our major competitor in the world market. And when you start comparing the cost of production—and this is where we have very serious reservation about being competitive in the world market. You are not comparing apples to apples, you are comparing differences in economies. They pay as much per month for labor, for an example, as we pay per hour sometimes, or at least per day.

So these are situations that makes, when you talk about being competitive in the world market, it is a totally different atmosphere and unrealistic to compare the production costs of Argentina to the production cost of this country. They do not have EPA, OSHA, minimum wage and all these things that we have to contend with that do enter into the cost of production and that the farmers in this country do have to receive a return to cover the cost, much less having results.

And as we have tried to point out also, Senator, in the prepared statement, the slight reduction, even with the large signup that we have in this year's program, we are going to have a very slight reduction in the carryover of grain stocks this year. And when we have about two-thirds of 1 year's supply on hand, it looks like we might cut back 1 month if everything works out the most optimistic as any of the reports are.

Senator MELCHER. You have about 2 year's supply?

Mr. HARP. No, sir, we have about two-thirds of 1 year.

Senator MELCHER. Two-thirds of 1 year.

Mr. HARP. But we have also found that any time that you have over 2 month's supply that the prices will be at or below the loan rate. And so we have a tremendous surplus that we must eliminate before we can expect the prices to exceed the loan and target.

Now, if we keep the present target price, which is going to be on an escalator downhill, even without further cuts in the budget, farmers are still not able to pay the cost of production under the present program. And we have a very serious situation, and bankruptcy, not only farmers but banks, implement people and so forth.

Senator MELCHER. How much is owned by the CCC now?

Mr. HARP. I do not have recent figures; mine are several weeks old. As far as the current stocks, I do not have that figure with me. I would be glad to supply it.

Senator MELCHER. Some of it is still under loan, of course.

Mr. HARP. Yes, sir.

Senator MELCHER. But it is likely not to be redeemed; is that right?

Mr. HARP. Yes, sir.

Senator MELCHER. You raise corn down around Abernathy, too?

Mr. HARP. Yes, sir, we raise corn, cotton, soybeans, virtually all crops, wheat.

Senator **Melcher**. How does corn in cost of production compare to sorghum?

Mr. **Harp**. Per acre, it is much higher, and per bushel——

Senator **Melcher**. Corn or sorghum?

Mr. **Harp**. Corn, I am sorry.

Senator **Melcher**. Corn is higher.

Mr. **Harp**. Corn is higher per acre, but also the yield is greater. So the per bushel cost is fairly comparable. However, according to—as stated in my report, the net loss per acre on corn is higher than sorghum.

As you can see in the study by Texas Agricultural Extension Service that the net loss that they anticipate in the Texas high plains for dryland sorghum is $27.25 per acre. No, on dryland it is $44.40 per acre, and $27.25 on irrigated sorghum, and $76.75 on irrigated corn. And that is the anticipated net loss in the Texas high plains region for this year in the program, with the benefits of the price supports.

Senator **Melcher**. The target price is figured in?

Mr. **Harp**. Yes, sir.

Senator **Melcher**. If you had enough acreage you could go out of business pretty easy.

Mr. **Harp**. That is where we are headed very rapidly. That is why we are concerned about the present program.

Another thing, as far as the study that we have reference to in the prepared statement, it is a study by Texas Tech University. And taking from their report, which states that even with participation in the Government program, corn, soybeans, and sorghum are below the break-even prices in all regions of Texas. That is their study for this year.

Senator **Melcher**. Do they give a break-even figure? They must.

Mr. **Harp**. In their report they do. I do not have it with me. But yes, they have the break-even figures in their total report.

Senator **Melcher**. Could you supply that for the record, break even for corn farmers in your area of Texas and also sorghum?

Mr. **Harp**. I would be very happy.

[The material follows:]

NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION

TELEPHONE 806 298-2543 P.O. BOX 530 ABERNATHY, TEXAS 79311-0530

June 30, 1987

The Honorable John Melcher, Chairman
Subcommittee on Agricultural Production
and Stablization of Prices
Senate Committee on Agriculture, Nutrition and Forestry
730 SHOB
Washington, D.C. 20510-2602

Dear Mr. Chairman:

You are to be commended for holding the series of hearings on the status of farm programs. I appreciate the opportunity of appearing before your committee last Thursday. In the opinion of sorghum farmers, the economic situation is still critical.

You requested that for the record I should supply a copy of the complete study conducted by Texas Tech University. Enclosed are copies for each of the committee members. I believe this study illustrates the extreme depressed situation of farmers in the Central and Southwestern part of the United States.

The present farm program has done nothing to improve total farm or net income. We trust that you will give our request serious consideration.

Thank you for your sincere interest.

Sincerely,

Elbert Harp

Elbert Harp
Executive Director

EEH:dp
Encs.

A REGIONAL PROFITABILITY ANALYSIS
OF
FIELD CROP PRODUCTION IN TEXAS

by

Gary D. Condra
Jesse Reyes
Don E. Ethridge
Dean W. Hughes

Visiting Associate Professor, Visiting Assistant Professor, Professor, and Associate Professor in the Department of Agricultural Economics, respectively.

February 1987

Texas Tech University College of Agricultural Sciences
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Introduction

This study is a continuation of on-going efforts to analyze financial stress in the farm sector of the Texas economy. It updates and extends previous studies which were conducted in response to the generally depressed conditions in agriculture, e.g., real net farm income at levels of the 1930's. Previous work in this area addressed the relationships between current market prices, shut-down prices, and break-even prices of major field crops in Texas (Ethridge and Sudderth, Hughes and Ethridge). In a 1985 study, Hughes and Ethridge found that current (1985) market prices failed to cover total costs of production (excluding management) for all of the major crops in 16 of the 22 regions in the state, and market prices were below the shut-down level for at least one major crop in 13 of the regions.

Since completion of the 1985 studies, economic conditions in the farm sector have changed. In addition to changes in crop prices and production costs, farmers are now operating under the provisions of the Food Security Act of 1985. Thus, there was a need to re-evaluate the profitability of Texas crop production in light of these and other changes in the economic environment of agriculture.

The general objective of this study was to provide a regional analysis of the current profitability for production of the major field crops in Texas. Specific objectives were to (a) estimate regional short- and long-run shut-down prices for the major crops in Texas, (b) estimate regional break-even prices for the study crops, (c) compare regional shut-down and break-even prices to recent market prices for the study crops, and (d) analyze potential adjustments in Texas crop production.

Methods and Procedures

The methods and procedures in this study are generally consistent with those of the previous studies (Ethridge and Sudderth, Hughes and Ethridge). However, earlier studies did not estimate long-run shut-down prices, i.e., shut-down prices in those studies are equivalent to short-run shut-down prices in this study.

Regions and Crops

The number of regions (shown in Figure 1) has been reduced from previous studies. These regions are aggregations of the crop reporting districts used by the Texas Crop and Livestock Reporting Service, generally coinciding with regions suggested by the Texas Economic Data Improvement Taskforce in "Understanding Texas Agriculture."

Major crops selected for inclusion in the study are corn, cotton, rice, sorghum, soybeans, and wheat. These crops accounted for over two-thirds of the cash receipts from crops in Texas in 1984 (Texas Crop and Livestock Reporting Service 1985). The analysis of profitability of each study crop was limited to those regions with significant acreage of the particular crop. However, if the crop accounted for over 10 percent of the field crop acreage in a given region, the crop was included in the analysis, even if the regional acreage was relatively small compared to the total state acreage of the

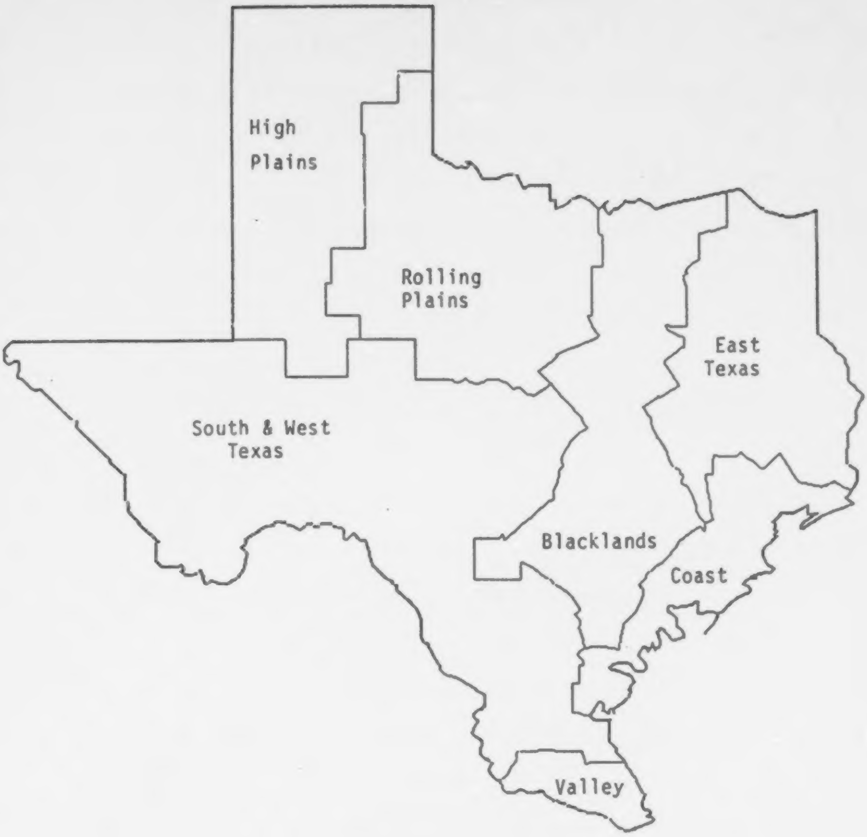
High
Plains
Rolling
Plains
East
Texas
South & West
Texas
Blacklands
Coast
Valley

Figure 1. Major Crop Production Regions in Texas.

the crop. Even with the exclusion of small acreages, the study included at least 90 percent of the acreage of each study crop in the state.

Recent Market Prices and Government Program Benefits

Recent market prices, as opposed to historical averages, were used to estimate the profitability of crop enterprises. This approach was selected because recent changes in the government farm program have substantially reduced the meaningfulness of historical averages. However, profitability is very sensitive to the level of crop prices, and individual crop prices are subject to substantial variation beween periods and within a given period. Therefore, the results of this study, while valid for recent price levels, must be interpreted in the light of any changes in crop prices.

Market prices reported in "Texas Grain Market News" for November 8, 1986, were used as current market prices for corn, sorghum, soybeans, and wheat (Texas Crop and Livestock Reporting Service). Market prices for cotton produced under provisions of the government program were assumed to equal the loan rate for the predominant grade, staple, and micronaire in a given region (U.S. Department of Agriculture 1986e). Prices reported in "Daily Spot Cotton Quotations" for November 6, 1986 were used as recent market prices for cotton ineligible for the loan (U.S. Department of Agriculture 1986c). The projected price, based on expected supply and demand, was used for cottonseed (U.S. Department of Agriculture 1986d). The market price for rice was assumed to equal loan value. Market prices for corn, rice, sorghum, soybeans, and wheat were assumed to be the same, whether produced under the government program or not.

Loan rates, deficiency payments, and other program benefits assumed for all crops were based on the announced 1986 provisions of the Food Security Act of 1985 (Glaser). However, decreases in benefits associated with budget reduction activities under the Gramm-Rudman-Hollings Act were not considered.

Since 1987 provisions are generally anticipated to be less favorable than those used in this study, the following results may be optimistic in terms of government support.

Production Costs and Yields

The 1986 Texas Crop Budgets, developed by the Texas Agricultural Extension Service, were used as the basis for estimation of per-acre production costs for the study crops in each crop reporting district (Extension Economist-Management). While these costs and returns budgets were developed as a planning tool and do not represent "the costs and returns from any one particular farm," the budgets are recognized as the best available estimate of current per-acre production costs for crops within the various regions of the state.

Energy costs for machinery operations and operating interest costs were reduced to reflect decreases in these production costs since development of the budgets (U.S. Department of Agriculture 1986a and 1986b). However, no adjustments were made for possible reductions in irrigation fuel costs and interest on machinery and equipment investment. Thus, to whatever extent there have been decreases in these cost items, the production costs in this study may be overstated.

Five-year average yields (1981-85) from each region were used as representative yields for the study crops (Texas Agricultural Statistics Service). In regions where cotton is predominately grown in a skip-row planting pattern, yields were adjusted to reflect cotton produced per acre of land.

It is important to note that an effort was made to maintain the integrity of the Texas Crop Budgets by minimizing changes in per-acre production costs. For this reason, changes were limited to adjustments in yields, energy costs for machinery operations, and operating interest expenses.

It is also important to remember that level of management ability, productivity of cropland, and size of operation varies significantly within a given region. Therefore, while these estimates are thought to be representative of the typical costs of production, any given farm may have higher or lower costs of production than the typical situation.

Short-run Shut-down Prices (SRSDP's)

The short-run shut-down price (SRSDP) is the market price required to cover the variable costs of production. The SRSDP was estimated for each major crop in each study region by subtracting government payments and secondary crop receipts (e.g., cottonseed) from variable costs and dividing the remaining costs by representative yield. SRSDP's were also estimated under alternative assumptions concerning government farm program benefits. First, "participating" SRSDP's were estimated as if the producer had a program base for the given crop, had complied with the program provisions, and had not exceeded the $50,000 payment limitation. Then, "non-participating" SRSDP's were estimated as if production was outside the program and no benefits were available.

Variable costs change with the level of production (e.g., seed, fertilizer, fuel, etc.) and represent those costs which are incurred only if a crop is produced. If the land is left idle, these costs can be avoided. This contrasts with fixed costs, which are incurred whether a crop is produced or not (e.g., depreciation, etc.).

Land was assumed to be a fixed cost item in this study. However, depending on tenure arrangements, land can also be a variable cost item. While land is a fixed cost item for the owner-operator and the cash-renter, rent is a variable cost item for the share-renter because it is paid on the crop produced. If no crop is produced, no rent is paid. Since land was assumed to be a fixed cost, the SRSDP's estimated in this study do not include a charge for use of the land and more nearly represent an owner-operator situation. SRSDP's for a share-renter would be higher than those reported in this study.

If the farmer does not "shut-down" production when expected market prices will not cover variable costs, losses will be greater from producing than if the land were left idle. That is, if a crop is produced, a portion of variable costs will be lost in addition to all of the fixed costs. If the land is left idle, only the fixed costs will be lost. If the market price is higher than the SRSDP, the farmer should produce because returns will cover all variable costs and at least part of fixed costs. However, crop production cannot be maintained in the long run at SRSDP-level prices because returns will not be sufficient to cover machinery and equipment replacement. Thus, producers facing SRSDP-level crop prices over the long run will lose their equity and eventually be forced to leave farming.

Long-run Shut-down Prices (LRSDP's)

The long-run shut-down price (LRSDP) is the market price required to cover all costs of production except land and management. This approach assumes that land and management are the residual claimants of profits, i.e., any profits or losses from crop production will accrue to these resources in the long run. In a manner similar to the estimation of the SRSDP, government payments and secondary crop receipts were subtracted from variable and fixed costs (excluding land and management costs). The remaining costs were then divided by the representative yield. LRSDP's were estimated for both participation and non-participation in government programs using procedures described earlier for SRSDP's.

When current crop prices are lower than LRSDP, returns to land and management are negative. This means that the land owner and/or farm operator must pay money into the farming operation to cover these losses. In the short run cash payments may not be required because negative returns (i.e., losses) may be offset by non-cash costs such as depreciation. However, when machinery and equipment must be replaced, non-cash depreciation costs become real cash outlays -- and at this point additional capital must be invested to cover past negative returns to land and management. Since it is unlikely that land owners and farm operators will be willing and able to subsidize a given crop indefinitely, production of that crop is likely to decline if the market price remains below LRSDP. Thus, positive returns to land and management are a necessary condition for maintenance of long-run production of a given crop.

It should be noted that a market price above LRSDP does not always insure continued production because production may shift to other crops which provide even higher positive returns to land and management. Nor do positive returns insure that land values will not decline since the joint return to land and management may not be high enough to support historical land values.

Break-even Prices (BEP's)

The break-even price (BEP) is the market price required to cover both variable and fixed costs of production. Generally, break-even prices are said to cover all costs; however, in this study, break-even prices do not include a return to management. In a manner similar to the estimation of shut-down prices, government payments and secondary crop receipts were subtracted from variable and fixed costs. The remaining costs were then divided by the representative yield. BEP's were estimated for both participation and non-participation in the government farm programs using the same procedures described earlier for shut-down prices.

Prevailing rental rates in each region were assumed to be representative of the cost of using land in crop production. It is important to note that financial stress has placed a great deal of downward pressure on rental rates in most regions of Texas. Thus, while these rates were representative of the rental arrangements at the time the budgets were developed, they may overstate land costs as rental rates continue to adjust to reduced receipts from crop production. As rental rates decline, land values can be expected to decline since the value of productive farmland is tied closely to rental rates.

When the market price for a crop is below BEP, management is receiving no return, and land is receiving less than the prevailing rental rate. Production of this crop will likely continue if the market price is above LRSDP; but if prices remain below BEP, land values can be expected to decline.

Results

Short-run Shut-down Prices (SRSDP's)

A comparison of short-run shut-down prices (SRSDP's) to recent market prices for regional crop production in Texas is shown in Table 1. "Participating" and "non-participating" market prices are the same for all crops except cotton. In the case of cotton, the marketing loan provision of the government farm program provides a higher effective cash price to participating producers than the market provides to non-participating producers. For example, the SRSDP for irrigated cotton in the High Plains is $0.32 per pound for participating producers, or $0.58 per pound for non-participating producers. Since participating producers can receive $0.48 per pound for their cotton, production will continue in the short run because receipts will cover variable costs and provide $0.16 per pound ($0.48 - $0.32) to pay to fixed costs and management. On the other hand, non-participating producers will only receive $0.35 per pound for their cotton. If such prices are expected to continue, these producers should

Table 1. Regional Short-run Shut-down Prices and Recent Market Prices for Major Texas Crops, 1986.

Region	Crop	Units	Market Price	Short-run Shut-down Price	
				Participating[a]	Non-Participating[b]
			($)	($)	($)
High Plains	Corn, Irrigated	Bu.	1.70	1.34	2.37
	Cotton, Irrigated	Lb.	0.48[c]	0.32	0.58
	Sorghum, Irrigated	Cwt.	2.70	2.67	4.38
	Soybean, Irrigated	Bu.	4.20	4.90	4.91
	Wheat, Irrigated	Bu.	2.20	1.47	3.10
	Cotton, Dryland	Lb.	0.48[c]	0.42	0.68
	Sorghum, Dryland	Cwt.	2.70	2.02	3.58
	Wheat, Dryland	Bu.	2.20	-0-	1.40
Rolling Plains	Cotton, Irrigated	Lb.	0.48[c]	0.16	0.42
	Cotton, Dryland	Lb.	0.48[c]	0.17	0.49
	Sorghum, Dryland	Cwt.	2.70	2.25	4.00
	Wheat, Dryland	Bu.	2.15	-0-	1.12
Blacklands	Corn, Dryland	Bu.	1.70	0.86	1.89
	Cotton, Dryland	Lb.	0.55[d]	0.20	0.46
	Sorghum, Dryland	Cwt.	2.70	1.03	2.78
	Wheat, Dryland	Bu.	2.15	1.08	2.91
East Texas	Corn, Dryland	Bu.	1.70	1.25	2.28
	Sorghum, Dryland	Cwt.	2.70	2.55	4.30
	Soybeans, Dryland	Bu.	4.20	6.21	6.21
	Wheat, Dryland	Bu.	2.15	1.69	3.52
Coast	Rice, Irrigated	Cwt.	3.75	-0-	8.14
	Corn, Dryland	Bu.	1.70	0.96	1.99
	Cotton, Dryland	Lb.	0.50[e]	0.12	0.38
	Sorghum, Dryland	Cwt.	2.75	1.32	3.07
	Soybeans, Dryland	Bu.	4.20	5.45	5.45
South and West	Cotton, Irrigated	Lb.	0.55[d]	0.23	0.49
	Cotton, Dryland	Lb.	0.55[d]	0.19	0.45
	Sorghum, Dryland	Cwt.	2.75	1.40	3.15
	Wheat, Dryland	Bu.	2.15	0.38	2.21
Valley	Corn, Irrigated	Bu.	1.70	1.27	2.30
	Cotton, Irrigated	Lb.	0.55[d]	0.17	0.43
	Sorghum, Irrigated	Cwt.	2.75	3.19	4.94
	Cotton, Dryland	Lb.	0.55[d]	0.12	0.38
	Sorghum, Dryland	Bu.	2.75	0.97	2.72

[a] Participating in government programs.

[b] Not participating in government farm programs.

[c] Market price for cotton grown outside the program = $.35/#.

[d] Market price for cotton grown outside the program = $.42/#.

[e] Market price for cotton grown outside the program = $.37/#.

"shut down" because receipts will lack $0.23 per pound ($0.35 - $0.58) covering variable costs of production.

In a few cases the SRSDP for a particular crop is shown as zero. This means that government payments and secondary crop receipts (e.g., wheat grazing) completely cover variable costs of production. Thus any receipts from sale of the primary crop are available to pay fixed costs and management.

The importance of farm program benefits is illustrated by the fact that current market prices for the majority of the crops across the state are above SRSDP for most producers who are participating in the government programs. Whereas, the majority of the crops are below SRSDP for non-participating producers. For participating producers, only irrigated soybeans in the High Plains, dryland soybeans in East Texas and on the Coast, and irrigated sorghum in the Valley are below SRSDP. For non-participating producers, the only crops which are above SRSDP are dryland cotton and sorghum in the Valley and dryland wheat in the High Plains and Rolling Plains.

Observations can also be made about irrigation and soybeans. First, while irrigated crop production is generally above SRSDP for participating producers, current crop prices are below SRSDP for all irrigated study crops produced outside the government program in every region of the state. Second, the current price of soybeans is below SRSDP in all regions where soybeans are a major crop, even for participating producers.

Long-run Shut-down Prices (LRSDP's)

The long-run shut-down prices (LRSDP's) shown in Table 2 represent market prices required to cover all costs of production except land and management. Any additional returns above LRSDP are then available for division between land and management. For example, dryland wheat produced on the High Plains

Table 2. Regional Long-run Shut-down Prices and Recent Market Prices for Major Texas Crops, 1986.

Region	Crop	Units	Market Price	Long-run Shut-down Price	
				Participating[a]	Non-Participating[b]
			($)	($)	($)
High Plains	Corn, Irrigated	Bu.	1.70	1.91	2.93
	Cotton, Irrigated	Lb.	0.48[c]	0.55	0.78
	Sorghum, Irrigated	Cwt.	2.70	4.60	6.24
	Irrigated Soybeans	Bu.	4.20	7.67	7.67
	Wheat, Irrigated	Bu.	2.20	2.67	4.43
	Cotton, Dryland	Lb.	0.48[c]	0.75	0.92
	Sorghum, Dryland	Cwt.	2.70	3.92	5.12
	Wheat, Dryland	Bu.	2.20	0.53	2.70
Rolling Plains	Cotton, Irrigated	Lb.	0.48[c]	0.41	0.67
	Cotton, Dryland	Lb.	0.48[c]	0.47	0.73
	Sorghum, Dryland	Cwt.	2.70	3.96	5.71
	Wheat, Dryland	Bu.	2.15	0.22	2.05
Blacklands	Corn, Dryland	Bu.	1.70	1.25	2.28
	Cotton, Dryland	Lb.	0.55[d]	0.29	0.55
	Sorghum, Dryland	Cwt.	2.70	1.91	3.66
	Wheat, Dryland	Bu.	2.15	1.63	3.46
East Texas	Corn, Dryland	Bu.	1.70	1.89	2.92
	Sorghum, Dryland	Cwt.	2.70	3.65	5.40
	Soybeans, Dryland	Bu.	4.20	7.62	7.62
	Wheat, Dryland	Bu.	2.15	2.13	3.96
Coast	Rice, Irrigated	Cwt.	3.75	2.81	11.85
	Corn, Dryland	Bu.	1.70	1.52	2.55
	Cotton, Dryland	Lb.	0.50[e]	0.20	0.46
	Sorghum, Dryland	Cwt.	2.75	2.48	4.23
	Soybeans, Dryland	Bu.	4.20	8.49	8.49
South and West	Cotton, Irrigated	Lb.	0.55[d]	0.37	0.63
	Cotton, Dryland	Lb.	0.55[d]	0.31	0.57
	Sorghum, Dryland	Cwt.	2.75	2.95	4.70
	Wheat, Dryland	Bu.	2.15	1.47	3.30
Valley	Corn, Irrigated	Bu.	1.70	1.95	2.32
	Cotton, Irrigated	Lb.	0.55[d]	0.27	0.53
	Sorghum, Irrigated	Cwt.	2.75	4.75	6.50
	Cotton, Dryland	Lb.	0.55[d]	0.22	0.48
	Sorghum, Dryland	Bu.	2.75	3.07	4.82

[a] Participating in government programs.

[b] Not participating in government farm programs.

[c] Market price for cotton grown outside the program = $.35/#.

[d] Market price for cotton grown outside the program = $.42/#.

[e] Market price for cotton grown outside the program = $.37/#.

in compliance with the government program provides a return of $1.67 per bushel ($2.20 - $0.53) after payment of all variable and fixed costs (excluding land and management). However, if the producer does not participate in the farm program, returns from dryland wheat just cover variable and fixed costs (excluding land and management). Therefore, land and management will receive no returns.

For participating producers, dryland wheat is the only crop which is above LRSDP in all major production regions. Irrigated wheat, which is produced primarily in the High Plains, is below LRSDP. Cotton is above LRSDP in all regions where it is a major crop except the High Plains. Dryland corn is above LRSDP in two of the three regions where it is a major crop, but irrigated corn is below LRSDP in both of its major production regions. Sorghum is below LRSDP in all regions with the exception of dryland production in the Blacklands and on the Coast. Soybeans are below LRSDP in all major production regions in Texas. For non-participating producers, only dryland wheat in the High and Rolling Plains is above LRSDP at recent market prices.

Break-even Prices (BEP's)

Table 3 shows a comparison between current market prices and break-even prices (BEP's) for participation and non-participation in the government farm programs. Under the assumptions in this study, the BEP is the market price which covers all costs of production except management. All regions except East Texas have at least one major crop enterprise where current market price is above BEP for participating producers. However, none of the crops in any of the regions is above BEP for non-participating producers. These results, it should be noted, do not take into account possible downward adjustments in rental rates which may have occurred subsequent to development of the budgets, or which may occur in the future.

Table 3. Regional Breakeven Prices and Recent Market Prices for Major Texas Crops, 1986.

Region	Crop	Units	Market Price	Break-even Price[a]	
				Participating[b]	Non-participating[c]
			($)	($)	($)
High Plains	Corn, Irrigated	Bu.	1.70	2.21	3.24
	Cotton, Irrigated	Lb.	0.48[d]	0.75	0.99
	Sorghum, Irrigated	Cwt.	2.70	5.63	7.22
	Irrigated Soybeans	Bu.	4.20	8.69	8.69
	Wheat, Irrigated	Bu.	2.20	3.33	4.89
	Cotton, Dryland	Lb.	0.48[d]	1.08	1.35
	Sorghum. Dryland	Cwt.	2.70	6.08	7.01
	Wheat, Dryland	Bu.	2.20	1.85	3.27
Rolling Plains	Cotton, Irrigated	Lb.	0.48[d]	0.58	0.84
	Cotton, Dryland	Lb.	0.48[d]	0.68	1.08
	Sorghum, Dryland	Cwt.	2.70	5.81	7.56
	Wheat, Dryland	Bu.	2.15	0.73	2.56
Blacklands	Corn, Dryland	Bu.	1.70	1.79	2.82
	Cotton, Dryland	Lb.	0.55[e]	0.44	0.70
	Sorghum, Dryland	Cwt.	2.70	2.96	4.72
	Wheat, Dryland	Bu.	2.15	2.78	4.61
East Texas	Corn, Dryland	Bu.	1.70	2.09	3.11
	Sorghum, Dryland	Cwt.	2.70	5.06	6.81
	Soybeans, Dryland	Bu.	4.20	9.03	9.03
	Wheat, Dryland	Bu.	2.15	2.72	4.55
Coast	Rice, Irrigated	Cwt.	3.75	4.64	12.79
	Corn, Dryland	Bu.	1.70	2.59	3.62
	Cotton, Dryland	Lb.	0.50[f]	0.31	0.58
	Sorghum, Dryland	Cwt.	2.75	4.18	5.92
	Soybeans, Dryland	Bu.	4.20	9.82	9.82
South and West	Cotton, Irrigated	Lb.	0.55[e]	0.51	0.76
	Cotton, Dryland	Lb.	0.55[e]	0.37	0.63
	Sorghum, Dryland	Cwt.	2.75	3.55	5.29
	Wheat, Dryland	Bu.	2.15	2.17	4.00
Valley	Corn, Irrigated	Bu.	1.70	2.60	3.62
	Cotton, Irrigated	Lb.	0.55[e]	0.36	0.62
	Sorghum, Irrigated	Cwt.	2.75	5.92	7.67
	Cotton, Dryland	Lb.	0.55[e]	0.31	0.58
	Sorghum, Dryland	Bu.	2.75	4.41	6.15

[a] Does not include return to management.

[b] Participating in government farm programs.

[c] Not participating in government farm programs.

[d] Market price for cotton grown outside the program = $.35/#.

[e] Market price for cotton grown outside the program = $.42/#.

[f] Market price for cotton grown outside the program = $.37/#.

Even with participation in the government program, the only crops which are above BEP are cotton (Blacklands, Coast, Valley, South and West), and wheat (High and Rolling Plains). Corn, soybeans, and sorghum are below BEP in all regions. Further, irrigated cotton in the Valley and South and West Texas are the only irrigated enterprises which are above BEP.

Limitations and Implications

Limitations

The results from this study have serious implications for Texas agriculture. However, the conclusions from any study are limited by the underlying assumptions, especially in the case of implications concerning possible future adjustments. Thus, while these results are valid indicators of current conditions, the validity of their implications for future adjustments rests firmly on the extent to which the underlying assumptions describe the future economic environment.

The Texas Crop Budgets (Extension Economists-Management) were assumed to be representative of the costs incurred on the typical farm in a given area, producing a given crop. Although this assumption ignores the variability in production costs associated with the level of management and farm size, it is not overly restrictive since most farms are within the "typical" range.

Moreover, future price expectations were not considered. While prices may be expected to change, projection of such possible changes is beyond the scope of this study. This study essentially says: "Given current input and crop prices, this is the current profitability situation and here are some possible future adjustments."

Current provisions of the government farm program were used, with no adjustment for the effects of Gramm-Rudman-Hollings deficit reduction measures. Since program benefits under the current law are scheduled to decrease over time, this assumption tends to understate possible adjustments. Moreover, major changes in the farm program could greatly alter both the current situation and future adjustments.

Shut-down prices were estimated for the owner-operator. Thus tenants (who must pay a land charge) will have higher SRSDP's and LRSDP's than those reported. Therefore, there may be distortions during the adjustment process which are not adequately described in these results or implications.

Implications

Figure 2 illustrates schematically the relationships between recent crop prices, SRSDP, LRSDP, and BEP for the study crops produced under the government program in each major production region. For example, the current price for dryland wheat is above BEP in the High Plains and the Rolling Plains. In contrast dryland wheat is above LRSDP, but below BEP, in the Blacklands, East Texas, and South and West Texas.

Since current market prices for participating producers of all major crops (except sorghum in the Valley and soybeans statewide) are above SRSDP, there should be no major shifts in cropping patterns in the short run because (a) producers have equipment which is specific to these crops, (b) resale potential for existing equipment is relatively low, and (c) farm program bases will not allow producers to shift to other crops and continue to receive program benefits.

In most cases, prices are above LRSDP for participating producers. This seems to indicate that crop production should be relatively viable in the long run, assuming current levels of government payments. However, the fact that crop prices are also generally below BEP suggests that rental rates and land values will continue to adjust downward.

While the long-run outlook varies from region to region, the situation in the High Plains appears to be particularly serious. Without significant

	Region						
	High Plains	Rolling Plains	Blacklands	East Texas	Coast	South & West	Valley
	Wheat, Dryland	Wheat, Dryland	Cotton, Dryland		Cotton, Dryland	Cotton, Irrigated Cotton, Dryland	Cotton, Irrigated Cotton, Dryland
Break-even Price							
		Cotton, Irrigated Cotton, Dryland	Corn, Dryland Sorghum, Dryland Wheat, Dryland	Wheat, Dryland	Rice, Irrigated Corn, Dryland Sorghum, Dryland	Wheat, Dryland	
Long-run Shut-down Price							
	Corn, Irrigated Cotton, Irrigated Sorghum, Irrigated Wheat, Irrigated Cotton, Dryland Sorghum, Dryland ~~Wheat, Dryland~~	Sorghum, Dryland		Corn, Dryland Sorghum, Dryland		Sorghum, Dryland	Corn, Irrigated Sorghum, Dryland
Short-run Shut-down Price							
	Soybean, Irrigaed			Soybean, Dryland	Soybean, Dryland		Sorghum, Irrigated

Figure 2. The Relationship of Recent Market Prices to Break-even, Long-run Shut-down, and Short-run Shut-down Prices of Major Texas Crops in Each Region, Assuming Participation in Government Farm Programs.

increases in current crop prices and/or farm program benefits, or substantial breakthroughs in cost-reducing technologies, the High Plains likely faces severe long-run adjustments in crop production and farmland values. There are also serious implications for the overall agricultural economy of the state because the High Plains accounts for about 44 percent of the state's major crop acreage, including 40 percent of the corn, 59 percent of the cotton, 34 percent of the sorghum, 29 percent of the soybeans, and 44 percent of the wheat (Texas Agricultural Statistics Service).

Under current economic conditions, crop production outside of the government program does not appear to be a viable option in Texas (Figure 3). Dryland wheat in the High and Rolling Plains is the only crop which provides a positive return to land and management, i.e., current market prices are above LRSDP. Generally, even providing no payments to land and management, receipts for Texas crops grown outside the program will not cover depreciation and other fixed costs. Thus, when machinery and equipment wears out, returns will not justify replacement.

Until returns increase and/or costs decrease, the outlook for that portion of the state's rural economy which is heavily dependent on crop production is one of intensified financial stress. Producers cannot continue to produce those crops which are shown below SRSDP in Figures 2 and 3 because returns do not cover variable costs of production. Production of those crops which are shown higher than SRSDP and lower than LRSDP will decline as machinery and equipment wears out because, even without allocation of returns to land and management, receipts will not fully cover depreciation, taxes, insurance, and interest. Production of those crops higher than LRSDP and lower than BEP will likely continue, but rental rates will decline until returns cover other fixed costs and management. These factors will also continue to depress land values.

	Region						
	High Plains	Rolling Plains	Blacklands	East Texas	Coast	South & West	Valley
Break-even Price	- - - - - - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -
	Wheat, Dryland	Wheat, Dryland					
Long-run Shut-down Price	- - - - - - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -
							Cotton, Dryland Sorghum, Dryland
Short-run Shut-down Price	- - - - - - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -	- - - - - - - -
	Corn, Irrigated Cotton, Irrigated Sorghum, Irrigated Soybean, Irrigated Wheat, Irrigated Cotton, Dryland Sorghum, Dryland	Cotton, Irrigated Cotton, Dryland Sorghum, Dryland	Corn, Dryland Cotton, Dryland Sorghum, Dryland Wheat, Dryland	Corn, Dryland Sorghum, Dryland Soybean, Dryland Wheat, Dryland	Rice, Irrigated Corn, Dryland Cotton, Dryland Sorghum, Dryland Soybean, Dryland	Cotton, Irrigated Cotton, Dryland Sorghum, Dryland Wheat, Dryland	Corn, Irrigated Cotton, Irrigated Sorghum, Irrigated

Figure 3. The Relationship of Recent Market Prices to Break-even, Long-run Shut-down, and Short-run Shut-down Prices of Major Texas Crops in Each Region, Assuming Non-Participation in Government Farm Programs.

Those producers of crops with prices above BEP will experience relatively little financial stress. But since the latter situation exists for relatively few crops in selected regions of Texas, it seems reasonable to conclude that Texas crop producers, lenders, and agribusineses will continue to face serious financial problems. And it seems equally reasonable to conclude that a long-run solution of these problems will require substantial increases in crop prices, decreases in production costs, or changes in government farm policies.

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Mr. **Harp**. And also attached to the prepared statement, there is a breakdown, as far as the Texas Agriculture Extension Service study, and as far as the cost of production. You have addendum 2:A, which is the corn, furrow irrigated; addendum 2:B, which is the sorghum furrow irrigated; and addendum 2:C, which is grain sorghum under dryland and textured soils, where it is showing a minus on the sorghum, minus $44.40. And then on irrigated sorghum, minus $27.25. And then on irrigated corn, minus $76.75.

Now with that kind of prospects, Mr. Chairman, you see the situation that we see—very little optimism under the present program. And we are not benefiting from the EEP program in sorghum because we are not even eligible due to the fact that the EEC does not export sorghum, and that eliminates us.

There are two other provisions that we feel that are unfair about the administration of the EEP, and that rules out sorghum. And that is that they cannot use the EEP to compete with countries that are nonsubsidizing countries; Australia being one of our major competitors comes into that category. Another one is that they cannot compete with EEP with countries that owe the United States a lot of money; Argentina being the country that owes very large debts to the United States.

So there has only been two incidents of EEP sales and for some reason they slipped those through without—I do not know what the logic from those two were.

Senator **Melcher**. All right. Thank you very much, Elbert, for your testimony.

We are going to hear from Keith Hora, next, first vice president of the National Corn Growers Association from Riverside, Iowa.

STATEMENT OF KEITH HORA, FIRST VICE PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, RIVERSIDE, IA, ACCOMPANIED BY LARRY JOHNSON, VICE PRESIDENT FOR GOVERNMENT RELATIONS, NATIONAL CORN GROWERS ASSOCIATION, COLOGNE, MN

Mr. **Hora**. Thank you, Mr. Chairman. I am Keith Hora from Riverside, IA, first vice president of the National Corn Growers Association. With me today is Larry Johnson from Cologne, MN. He is a vice president of our organization, chairman of our government relations committee.

Mr. Chairman, I would request that the full text of our prepared statement be added for the record, and I will briefly highlight some comments.

Senator **Melcher**. It will be made part of the record.

Mr. **Hora**. Thank you. The final verdict on the 1985 farm bill is whether, in fact, it will have provided producers with adequate income protection while at the same time moving U.S. agriculture to an effective demand management program.

With regard to these critical areas, that is income protection and demand enhancement, the bill shows significant promise. Net farm income has greatly improved and domestic disappearance and export demand is slowly improving. Only 1 year ago, export demand for corn dropped to a 10-year low at 1.241 billion bushels. Now corn exports are anticipated to reach 1.604 billion bushels in the 1987-88 marketing year. That is an increase of approximately 29 percent just in 1 year's time.

We also might make note that although the farm bill was stated as an 1985 bill, really for corn it did not begin working until late in 1986, and already in 1 year's time we are seeing those kind of dramatic turnarounds.

The 1985 farm bill must be given sufficient time to work. In addition, U.S. corn growers now need predictability and certainty in domestic farm legislation in order to have an opportunity of making proper production and marketing decisions, and when we get into questions, I might refer to that more. That hinges on such things as the amount of set-aside that is required and also what percentage should be placed into the paid land diversion.

The improvements in net farm income and export volume are a direct result of the Food Security Act of 1985. But our organization believes these levels can be further increased through the implementation of a marketing loan for feed grains. The marketing loan will send the proper signals to the rest of the world, both our customers and also other producers, our competitors, that the United States will be the producers who will sell corn at world market clearing levels. I think that is very critical when we begin talking about a marketing loan.

The National Corn Growers Association strongly urges Congress to stay with the present farm program. The Food Security Act of 1985 may not be perfect, but it is showing positive signs of accomplishing what it was designed to do.

Mr. Chairman, we appreciate having this opportunity to appear before you today and we will attempt to answer any questions.

[The prepared statement of Mr. Hora follows:]

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STATEMENT OF

NATIONAL CORN GROWERS ASSOCIATION

BEFORE

UNITED STATES SENATE

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND
STABILIZATION OF PRICES

ON

JUNE 25, 1987

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, I AM KEITH HORA, FIRST VICE PRESIDENT OF THE NATIONAL CORN GROWERS ASSOCIATION (NCGA), AND A CORN GROWER AND LIVESTOCK PRODUCER FROM RIVERSIDE, IOWA. ACCOMPANYING ME TODAY IS LARRY JOHNSON, VICE PRESIDENT OF NCGA'S GOVERNMENT RELATIONS COMMITTEE FROM COLOGNE, MINNESOTA. THE MEMBERS OF OUR ASSOCIATION APPRECIATE HAVING THE OPPORTUNITY TO TESTIFY BEFORE THE SUBCOMMITTEE TO REVIEW THE STATUS OF THE 1985 FOOD SECURITY ACT.

THE NATIONAL CORN GROWERS ASSOCIATION (NCGA) IS A NONPROFIT, NONPARTISAN ORGANIZATION WHICH REPRESENTS THE NATION'S 1.3 MILLION CORN FARMERS. THE PURPOSE OF THE NCGA IS TO ENHANCE AND EXPAND THE USE, MARKETING, AND EFFICIENT PRODUCTION OF AMERICAN CORN.

AS WE HAVE PREVIOUSLY TESTIFIED, THE FINAL VERDICT ON THE 1985 FARM BILL IS WHETHER IN FACT IT WILL HAVE PROVIDED PRODUCERS WITH ADEQUATE INCOME PROTECTION WHILE AT THE SAME TIME MOVING U.S. AGRICULTURE TO AN EFFECTIVE DEMAND MANAGEMENT PROGRAM.

WITH REGARD TO THESE CRITICAL AREAS -- INCOME PROTECTION AND DEMAND ENHANCEMENT -- THE 1985 FARM BILL IS BEGINNING TO SHOW SIGNIFICANT PROMISE. NET FARM INCOME HAS GREATLY IMPROVED, IN LARGE PART TO THE MECHANICS OF THE FOOD SECURITY ACT OF 1985. MEANWHILE, DOMESTIC DISAPPEARANCE AND EXPORT DEMAND IS SLOWLY IMPROVING. ONLY ONE YEAR AGO, EXPORT DEMAND FOR CORN DROPPED TO A 10 YEAR LOW AT 1.241 BILLION BUSHELS. TODAY, LESS THAN ONE YEAR INTO THE 1985 FARM BILL FOR FEED GRAINS, CORN EXPORTS ARE ANTICIPATED TO REACH 1.604 BILLION BUSHELS IN THE 1987-88 MARKETING YEAR, AN INCREASE IN TOTAL VOLUME OF APPROXIMATELY 29 PERCENT.

WE FULLY RECOGNIZE THAT THE 1985 FARM BILL MAY HAVE SOME SHORTCOMINGS, BUT AT THE SAME TIME, THIS LEGISLATION MUST BE GIVEN SUFFICIENT TIME TO WORK SO THAT IT MIGHT HAVE ITS INTENDED IMPACT ON THE CURRENT U.S. AGRICULTURAL SITUAION. IN ADDITION, U.S. CORN GROWERS NOW NEED PREDICTABILITY AND CERTAINTY IN DOMESTIC FARM LEGISLATION IN ORDER TO HAVE ANY OPPORTUNITY OF MAKING PROPER PRODUCTION AND MARKETING DECISIONS AS PROVIDED FOR IN THE 1985 FARM BILL.

THE IMPROVEMENTS IN NET FARM INCOME AND EXPORT VOLUME ARE A DIRECT RESULT OF THE FOOD SECURITY ACT OF 1985, BUT WE BELIEVE THESE LEVELS CAN BE FURTHER INCREASED THROUGH THE IMPLEMENTATION OF A MARKETING LOAN FOR FEED GRAINS. THE MARKETING LOAN IS THE ONLY TOOL THAT CAN MAKE AMERICAN AGRICULTURE TRULY COMPETITIVE, REDUCE OUR BURDENSOME SUPPLY OF STOCKS, REJUVINATE THE RURAL INFRASTRUCTURE, AND PROVIDE AN ORDERLY TRANSITION OF THE CORN INDUSTRY FROM SIGNIFICANT GOVERNMENT RELIANCE TO MARKET ORIENTATION WITHOUT JEOPARDIZING FARM INCOME.

IN ADDITION TO SUPPORTING THE IMMEDIATE IMPLEMENTATION OF A MARKETING LOAN, THE NCGA WILL CONTINUE TO PRESS THE ADMINISTRATION TO USE TO A MAXIMUM THE AUTHORITIES AVAILABLE TO THE SECRETARY OF AGRICULTURE UNDER THE CURRENT LEGISLATION SO THAT AMERICAN AGRICULTURE MIGHT BECOME EVEN MORE COMPETITIVE IN EXPORT MARKETS.

THE NATIONAL CORN GROWERS ASSOCIATION STRONGLY URGES CONGRESS TO "STAY THE COURSE" ON THE 1985 FARM BILL. CLEARLY, THE FOOD SECURITY ACT OF 1985 IS NOT PERFECT LEGISLATION, BUT IT IS SHOWING MANY POSITIVE SIGNS OF ACCOMPLISHING WHAT IT WAS DESIGNED TO DO. THE FARM BILL SHOULD BE ALLOWED TO WORK.

WE APPRECIATE HAVING THIS OPPORTUNITY TO APPEAR BEFORE YOU TODAY, AND I WILL ATTEMPT TO ANSWER ANY QUESTIONS THAT YOU MAY HAVE ABOUT OUR TESTIMONY.

Senator MELCHER. Keith, what county is Riverside in?

Mr. HORA. That is in Washington County. It is the southeastern part of Iowa. It is one tier of counties in from the Mississippi River. Exports are very critical to us.

Senator MELCHER. And Larry, where is Cologne, MN?

Mr. JOHNSON. Southwest of Minneapolis about 40 miles, in Carver County.

Senator MELCHER. Do both of you produce soybeans also?

Mr. JOHNSON. Yes.

Mr. HORA. Yes, I do. Our mix is approximately two-thirds to three-fourths corn, and one-fourth to one-third soybeans.

Senator MELCHER. Did you find last year it was more profitable and what are your expectations this year, to produce corn under the program rather than soybeans?

Mr. HORA. Most corn growers prefer to grow corn. That is certainly true in my area. And yes, it is more profitable to grow corn because corn has the ability to get that extra yield. In other words, if you start out with 130 to 140 bushel yield potential on corn and increase that 10 percent, that become very dramatic versus a 40 to 45 bushel yield on soybeans.

A little bit more on the history of that. There is times when a mix of corn and soybeans is beneficial because of the disease factors associated with each crop. And also when you include less tillage, which is becoming ever more popular, throughout our area anyway. It is easier to go less tillage into a different crop residue.

So, there are many factors there, other than just price and yield alone, that farmers are weighing.

Senator MELCHER. Do you find that about the same way, Larry?

Mr. JOHNSON. Yes; corn is a more profitable crop to raise than soybeans because of the program and the payments involved. When you have to subtract the cost of the set-aside, the 20 percent of land and take all of that away from the corn, it gets fairly close. And that depends on an individual basis as to his land and his operation.

Senator MELCHER. That is a pretty big differential, 20 percent set-aside to be in the corn program and yet you both say that it is more profitable to raise corn. They are both row crops. They both have to be cultivated about the same number of times? What is the difference? Is there a lot of fertilizer cost in corn?

Mr. HORA. The big added fertilizer costs in corn is the cost of nitrogen. Soybeans themselves produce their own. Herbicide costs and the other fertility costs would probably be about equal.

Senator MELCHER. About equal.

Mr. HORA. But there is a growing trend, I might say, toward less tillage. And even narrower rows in soybeans and beans that may not even be cultivated anymore, different herbicide methods which to me is drastically changing the whole picture in soybean production.

Senator MELCHER. Reduce costs and perhaps increase yield?

Mr. HORA. Correct. Less soil loss.

Mr. JOHNSON. That makes some difference. In my area corn is 120 bushels per acre bringing the loan rate of $1.70 brings about $40 an acre more than soybeans at 40 bushels per acre at the loan rate of, locally about $4.45. So that about makes up the difference in cost so the deficiency payment then is the difference in profit, and that has to be weighed against the set-aside of 20 percent of that corn base.

Senator **Melcher**. In each of your areas, where is the 1986 crop of corn? Is it still there or not?

Mr. **Hora**. In my area, about 90 percent of the area had a nice rain about a week ago, 2 to 3 inches. There are some areas that did not receive any yet, and it is probably 2 to 3 weeks ahead of normal.

Senator **Melcher**. I am speaking of last year's crop. Where is it? Is it still there?

Mr. **Hora**. I would say maybe half of it is still there. Of course, we are close to a river.

Senator **Melcher**. And none of it is stored on the ground anymore or in those makeshift——

Mr. **Hora**. You see some on the ground, yes.

Senator **Melcher**. There is still some?

Mr. **Hora**. Yes.

Senator **Melcher**. Piled up?

Mr. **Hora**. Piled up.

Senator **Melcher**. With wood about this high?

Mr. **Hora**. With a tarp or something over it; a piece of plastic.

Senator **Melcher**. Is that owned by CCC, or who owns it?

Mr. **Hora**. I have no idea. I am sure the elevator that it is stored at is responsible for its condition.

Senator **Melcher**. What kind of condition is it in?

Mr. **Hora**. I would guess not very good.

Senator **Melcher**. I would guess so, too. Larry, do you have the same situation?

Mr. **Johnson**. The condition is certainly variable. Minnesota is one of the States that has the greatest amount of storage relative to a year's production, and I have got my 1985 crop on farmer owned reserve. I have got the 1984 crop in the reserve, and the 1986 crop under loan.

Senator **Melcher**. Around Cologne is there any still stored in——

Mr. **Johnson**. There is some, but I come from mostly a dairy county. We are on the northeast edge of what is the good corn belt in southern or southwestern Minnesota. There is a lot of storage in Minnesota. A lot of relatively temporary storage went up in the last year, and a lot of it is still there.

Senator **Melcher**. How much do we need to move of what we have on hand of the 1986 crop to see the price respond favorably upward?

Mr. **Hora**. Really we need to move all the 1986 crop that is under regular loan into the marketing channels before fall harvest.

Senator **Melcher**. Before October.

Mr. **Hora**. Correct.

Senator **Melcher**. You both harvest in October?

Mr. **Hora**. Yes.

Mr. **Johnson**. It has responded some. It has gotten up to the point where it is near the loan rate. It is going to have to go above that to pull more of it out, and that will depend strictly on storage. Those farmers who need to free up storage will unload it, and those that do not have to free up storage will probably extend their loan to another year.

But that corn has to be unloaded sometime. It is going to continue over the market until we can get rid of it. And that is why we advocate the marketing loan so that we can, especially as we get into the trade negotiations that are coming up, through GATT and otherwise, that the rest of the world knows that we are serious and consistent and that we have got an objective and a program in this country.

Senator **Melcher**. The wheat growers just testified that with export enhancement and certificates for wheat, they believe that the situation is like a marketing loan. Do you agree?

Mr. **Hora**. Our position in our organization is that, yes, certificates do somewhat come close to comparing to a marketing loan. However, we still are not sending a proper signal, because the rest of the world still believes that our prices, our loan price—and they cannot truly understand how the certificate program works.

I might also tie into that answer a little bit about your previous question. And that is, the certificate program, it is OK if there is a good supply of certificates. But I almost see a shortage of them between now and this October period we are talking about. With the marketing loan, a farmer could go ahead and make his decision, pay off his loan to that market price and sell it.

Whereas now, if the market goes up someday he has to first find his certificates because most people have already cashed in the certificates they own. And there seems to be a shortage of them right now.

Mr. **Johnson**. There are two problems we see with the certificate program. One is that it is being implemented at the discretion of the Department. We do not know what all the rules are, and in fact, the rules are created as we go along, depending on what they perceive the need to be. It is very difficult for us to try and put together a marketing program knowing that is a condition, and not knowing how the market will react, how the certificate program will be implemented throughout the rest of the summer even, let alone next year.

The other areas as far as the certificate program versus the marketing loan is wheat, especially the European wheats that are our competition. And we are competitive in the world under these certificates with corn, but the European wheat is taking the place of some corn as a feed grain in the rest of the world.

Senator **Melcher**. All right, thank you both very much.

Mr. **Hora**. Thank you.

Mr. **Johnson**. Thank you.

Senator **Melcher**. Our next witness is Myron Openshaw, chairman of the agricultural policy committee for the National Cattlemen's Association. Myron is from Oroville, CA.

STATEMENT OF MYRON OPENSHAW, CHAIRMAN, AGRICULTURAL POLICY COMMITTEE, NATIONAL CATTLEMEN'S ASSOCIATION, OROVILLE, CA, ACCOMPANIED BY CHANDLER KEYS

Mr. **Openshaw**. Thank you, Mr. Chairman. Thank you for allowing the National Cattlemen's Association to participate today in this important hearing. My name is Myron Openshaw and I represent the National Cattlemen's Association as chairman of their agricultural policy committee. The National Cattlemen's Association is a spokesman for all segments of the beef cattle industry representing approximately 230,000 cattlemen throughout the United States.

We have submitted a prepared statment for the record, which I would like to summarize.

Senator **Melcher**. It will be made part of the record.

Mr. **Openshaw**. In summary, I would like to begin by stating that the National Cattlemen's Association is in opposition to any substantial changes in the Food Security Act of 1985. This current farm bill has only been in place for one full crop year. It has provided predictability and added some stability to the farm community. Changing course at this point would be a misservice to the whole of agriculture.

The Food Security Act of 1985 was the result of a year's worth of work by the time it became law. During that year, one of the most prevalent topics of conversation was the fact that this bill would cover a 5-year period of time. The majority of farmers and cattlemen called for stability, predictability, and longevity in any new farm legislation. And we believe that they got it.

Production controls for grain to achieve an artificial market price would leave cattlemen with a tremendous burden. Almost overnight, feed costs would skyrocket, but only for U.S. consumers. Foreign purchasers of U.S. grain would still be able to buy feedstuffs at world prices. Also, as feeders are forced to pay higher and higher prices for grain, they will pay an artificially lower and lower price for feeder calves. Margins have to be maintained. So, initially the cow/calf man would also have to bear some of the pain of price controls.

What it all boils down to is that the proponents of mandatory production controls would move the burden of supporting grain farmer income away from the market and Government to the consumer of the commodity. And, in the end, in the case of feedgrains, the burden would be placed on the livestock industry.

A lot of talk is focused on the innuendo that NCA is only interested in a cheap grain policy. This is far from the truth. The cattle industry can live with $2 bushel corn or $5 bushel corn, as long as the world market is the major force behind the price. With the current farm bill, the price of corn is low, reflecting a huge surplus. If this surplus starts to dissipate, the price would increase under the current structure of the law. This is a factor the cattle industry is willing to live with.

Another of NCA's concerns is the concept of decoupling and what the farmer will do with his land once he is decoupled. Will decoupling through direct, no-strings-attached payments, provide the incentive for farmers to diversify into nonsupported agriculture? Would this diversification create economic havoc in the nonsupported agriculture community? The cattle industry, along with other supply and demand agriculture, is in a constant battle to alter its output one way or another in order to lock in a profit. Encouraging farmers, through decoupling payments, to expand into our markets would not only be disastrous, it would be unfair. That brings me to my next point.

Where does Congress draw the line on who will receive payments and who will not? If Congress decides to establish an entitlement program for family farms, will it only be for family farms which previously raised federally supported commodities?

Decoupling sounds like a grand idea at first glance, but many questions need to be answered before implementation.

Haying and grazing are Washington buzzwords which are cause for countrywide debate among cattlemen. With the advent of large overbearing grain surpluses, the Federal Government has devised multiple land set-aside and diversion programs to decrease the amount of acreage planted to program crops. What to do with this set-aside land has been cause of concern for lawmakers and farmers and ranchers alike. The most common answer is to perform some type of haying and grazing on this set-aside land. This should be done as little as possible, but also should be done the same on all programs. I have listed the set-aside programs now in place in my prepared statement.

Together these set-aside programs make up a new multimillion-acre forage base at a time when much of the country's traditional grassland is going unused. Prices for grass leases are at their lowest in years and many custom cattle backgrounders are being forced out of business. NCA feels the expanded use of haying and grazing has exacerbated the situation.

A fairness issue is also in question regarding haying and grazing. Is it equitable for a farmer to be allowed to commercially utilize his paid set-aside acres to produce nonsubsidized crops?

My final topic will cover NCA's interest in PIK certificates. Many are probably asking why we are interested in generic commodity certificates. The livestock industry, and particularly the cattle industry, is the primary consumer of U.S. feed grains. We depend on open access into the grain market and the certificate program has facilitated this access. Cattle feeders use generic certificates to acquire grain which is stored under Government loan. The practice is called PIK and roll. The grain purchasing method has been extremely helpful in securing grain at a time of need. It has also allowed the market to play a significant role in establishing price.

PIKing and rolling grain directly to the consumer increases the liquidity in the grain market and frees up much needed storage. Would it not be wise to facilitate the use of immediate PIK and roll and move grain directly to the cattle feeding operations? Unfortunately, this is not occurring. At this moment, wheat harvest in Kansas is in full swing and numerous feedlots would like to move some of this wheat directly into cattle by using the PIK and roll process. At this time, all grain must move through a bonded warehouse or farm storage before a loan can be consummate. If the farmer could just move his grain to the feedlot, measure it and PIK and roll it, everyone would be satisfied. The farmer would be rid of his grain, the Government would not have the threat of foreclosure on the loan, and the feedyard would have its wheat all within days of harvest. Mr. Chairman, this is one surefire way to make grain disappear.

We hope that the 1985 farm bill will remain alive throughout its 5-year life with as little change as possible. If we start changing and amending the farm bill to completely satisfy everybody's needs, we will not recognize it at its termination.

Thank you very much, Mr. Chairman, for offering the National Cattlemen's Association time to voice their opinion on current farm policy. I would be happy to answer any questions.

[The prepared statement of Mr. Openshaw follows:]

NCA

NATIONAL CATTLEMEN'S ASSOCIATION

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TESTIMONY

on behalf of

NATIONAL CATTLEMEN'S ASSOCIATION

before the

United States Senate
Agriculture, Forestry and Nutrition Committee
Agricultural Production & Stabilization of Prices Subcommittee

June 25, 1987

on

Grain Provisions of the 1985 Food Security Act

by

Myron Openshaw
Chairman, Agricultural Policy Committee

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The National Cattlemen's Association is the national spokesman for all segments of the beef cattle industry--including cattle breeders, producers and feeders. The NCA represents approximately 230,000 cattlemen. Membership includes individual members as well as 49 affiliated state cattle associations and 23 national breed associations.

Mr. Chairman, thank you for allowing the National Cattlemen's Association to participate in this important hearing today. My name is Myron Openshaw and I represent the National Cattlemen's Association as Chairman of their Agricultural Policy Committee. I am a rancher from Oroville, California, and also First Vice President of the California Cattlemen's Association.

I would like to begin by stating National Cattlemen's Association's opposition to any substantial changes in the 1985 Food Security Act. This current farm bill has only been in place for one full crop year. It has provided predictability and added some stability to the farm community. Changing course at this point would be a misservice to the whole of agriculture.

The 1985 Food Security Act was the result of a years worth of work by the time it became law. During that year, one of the most prevalent topics of conversation was the fact that this bill would cover a five-year period of time. The majority of farmers and cattlemen called for stability, predictability and longevity in any new farm legislation. Farmers and cattlemen are growing weary of changing horses in midstream. Forecasting the running of an operation can be done more accurately if the rules of the game remain unchanged.

Having said that, I would now like to make a few comments regarding mandatory production controls, decoupling, generic commodity certificates and haying and grazing. To begin with, production controls for grain to achieve an artificial market price would leave cattlemen with a tremendous burden. Almost overnight, feed costs would skyrocket, but only for U.S. consumers. Foreign purchasers of U.S. grain would still be able to buy feedstuffs at world prices. Even after recovering from the initial slap of artificially supported prices for feedgrains, the cattle industry would still have to face the threat of Canadians or Mexicans setting up cattle feeding operations using U.S. corn at world prices, then shipping live cattle to the U.S. for slaughter with a clear profit advantage. Also, as feeders are forced to pay higher and higher prices for grain, they will pay an artificially lower and lower price for feeder calfs. Margins have to be maintained. So, initially, the cow/calf man would also have to bear some of the pain of price controls for grain.

What it all boils down to is that the proponents of mandatory production controls would move the burden of supporting grain farmer income away from the market and government to the consumer of the commodity. And, in the case of feedgrains, the burden would be placed on the livestock industry.

A lot of talk is focused on the innuendo that NCA is only interested in a cheap grain policy. This is far from the truth. The cattle industry can live with two-dollar bushel corn or five-dollar bushel corn, as long as the world market is the major force behind the price. With the current farm bill, the price of corn is low, reflecting a huge surplus. If this surplus starts to dissipate, the price would increase under the current structure of the law. This is a factor the cattle industry is willing to live with.

Another of NCA's concerns is the concept of decoupling and what the farmer will do with his land once he is 'decoupled.' Will he be allowed to use his land for any purpose such as raising fruit, vegetables, nuts, hogs, dairy, potatoes, dry beans, hay, sheep or NCA's chief concern...cattle? Will decoupling through direct, no-strings-attached payments, provide the incentive for farmers to diversify into non-supported agriculture? Would this diversification create economic havoc in the non-supported agriculture community? The cattle industry, along with other supply and demand agriculture, is in a constant battle to alter its output one way or another in order to lock in a profit. Encouraging farmers, through decoupling payments, to expand into our markets would not only be disastrous, it would be unfair. That brings me to my next point.

Where does Congress draw the line on who will receive payments and who will not? If Congress decides to establish an entitlement program for family farms, will it only be for family farms which previously raised federally supported commodities? Would it be fair for a corn farmer on one side of the road to receive payments and be allowed to raise cattle, while his cattleman neighbor receives no payments, but has to sell his cattle for the same prices? Clearly, the corn farmer and the cattleman will have a different bottom line when it comes time to add up their assets.

Decoupling sounds like a grand idea at first glance, but these valid questions need to be answered before implementation.

Haying and grazing are Washington "buzzwords" which are cause for countrywide debate among cattlemen. With the advent of large overbearing grain surpluses, the federal government has devised multiple land set-aside and diversion programs to decrease the amount of acreage planted to program crops. What to do with this set-aside land has been cause of concern for lawmakers and farmers/ranchers alike. The most common answer is to perform some type of haying and grazing on this set-aside land.

The following are a list of set-aside programs now in place:

1. ACR (Acreage Conservation Reserve) -- Includes paid diversion acreage and ARP (Acreage Reduction Program) can be grazed except during a five month continuous period in calendar year 1987.

   "ARP acres" is the land which the USDA requires farmers to set aside to qualify for the crop program in which they participate, no direct payment is made. Paid diversion is a voluntary extra 15 percent acreage set-aside in which farmers may participate; for doing so they receive direct payments in the form of PIK certificates.

2. CU (Conservation Use Acreage) -- Applicable under the 50-92 provision. Can be grazed and/or hayed at option of state ASCS committee.

   The 50-92 program is an option available to farmers if they don't choose the traditional ACR program. 50-92 simply means that a farmer can lay aside 50 percent of his base crop acres and still receive 92 percent of his total deficiency payment from USDA.

3. CR (Conservation Reserve) -- No haying or grazing except in case of natural emergency declared by the Secretary.

   The long term paid conservation reserve is a 10-year program to take 40 million acres of highly erodible cropland out of production. USDA receives bids from farmers based on the amount of money per acre the farmer would be willing to accept as compensation for idling land.

Together these set-aside programs make up a new multi-million-acre forage base at a time when much of the country's traditional grassland is going unused. Prices for grass leases are at their lowest in years and many custom cattle backgrounders are being forced out of business. NCA feels the expanded use of haying and grazing has exacerbated the situation.

A fairness issue is also in question regarding haying and grazing. Is it equitable for a farmer to be allowed to commercially utilize his paid set-aside acres to produce non-subsidized crops, hay and livestock, while his neighbor who has no program crop produces hay and cattle without the benefit of paid set-aside?

NCA will be addressing this controversial topic during our July mid-year meeting in Bismarck, ND, and will hopefully develop some alternatives to unlimited haying and grazing of set-aside acres.

My final topic will cover NCA's interest in PIK certificates. Many are probably asking the question, "Why are cattlemen interested in generic commodity certificates?" The livestock industry, and particularly the cattle industry, is the primary consumer of U.S. feedgrains. We depend on open access into the grain market and the certificate program has facilitated this access. Cattle feeders use generic certificates to acquire grain which is stored under government loan. The practice is called PIK and roll. This grain purchasing method has been extremely helpful in securing grain at a time of need. It has also allowed the market to play a significant role in establishing price.

PIKing and rolling grain directly to the consumer increases the liquidity in the grain market and frees up much needed storage. Wouldn't it be wise to facilitate the use of immediate PIK and roll and move grain directly to cattle feeding operations? Unfortunately, this is not occurring. At this moment, wheat harvest in Kansas is in full swing and numerous feedlots would like to move some of this wheat directly into cattle by using the PIK and roll process. At this time, all grain must move through a bonded warehouse or farm storage before a loan can be consummate. If the farmer could just move his grain to the feedlot, measure it and PIK and roll it, everyone would be satisfied. The farmer would be rid of his grain, the government wouldn't have the threat of foreclosure on the loan, and the feedyard would have its wheat all within days of harvest. Mr. Chairman, this is one surefire way to make grain disappear!

Thank you for offering the NCA this time to voice our opinions regarding current federal farm policy. We hope the 1985 farm bill will remain alive throughout its five-year life with as little change as possible.

Senator MELCHER. Myron, I want to thank the National Cattlemen's Association for testifying at this hearing because you add balance to the hearing. We need to know what cattlemen think of the grain programs and how it affects them and your testimony gives us that chance. You are the biggest single industry in the United States, and certainly you are the reason that a lot of this corn, sorghum, barley, and wheat is produced.

Have you talked to the Secretary of Agriculture about PIK and roll?

Mr. OPENSHAW. Yes, we have been talking to him. Mr. Chandler Keys from our Washington NCA office has been in contact with him several times.

Senator MELCHER. They seem to think there are some flaws in it and I do not think they allow it right now, do they?

Mr. OPENSHAW. I am going to let Mr. Keys, he is a little bit more versed on that than I am.

Mr. KEYS. Senator, what the problem is right now, is we are in a wheat harvest situation and a lot of these farmers out there would like to move their grain right into feedlots. I got a call yesterday from a feedlot operator, and I will run through the scenario.

He was watching farmers' grain crops go by him, go into town, weigh his grain at the local elevator, put his grain up in the elevator bins, take his weight tickets down to a local ASCS office with PIK certificates provided by that feedlot that he passed on the way into town, PIKed and rolled his grain out. And then the producer, the feedlot producer has to go back into town with his trucks along with the farmer's and transport the grain back out to the feedlot.

The law right now requires before you take a loan out on grain that you must be in a bonded or a certified storage facility. The elevator operator in this case probably garnished more than 20 cents a bushel in what they call in-and-out or elevating charges.

We feel that we could better utilize the PIK and roll program if this producer could do this right in the feedlot, get his weight tickets from the feed producer and then go into town, consummate the loan, and PIK and roll it immediately. Therefore, the grain goes immediately into use. There is no storage problems, and we take care of a lot of the problems that you alluded to earlier of grain piling up on the ground outside of grain elevators. We would rather pile it up in front of cattle.

Senator MELCHER. My understanding is the PIK and roll was being used but the Secretary discontinued it sometime this past spring. If that is true, why did he discontinue? What is the problem?

Mr. KEYS. The problem with the PIK and roll during last harvest was that the differentials between the loan and the PIK certificates were so great that people were not only taking loans out and repaying them with PIK certificates, they were reaping a large differential is what they call them—which is the difference between the PIK certificate and the loan—and pocketing that as income. And they were doing it in different regions of the country, because the posted county prices in, say North Dakota were a lot different than Kansas or Iowa.

Senator MELCHER. But is that the reason he is not doing it now?

Mr. **Keys**. That is the reason, I believe that you cannot go beyond a certain area in your county. You can still take loans out and repay them with PIK certificates.

Senator **Melcher**. Perhaps the term PIK and roll applied to just the way you described, of grain going into the elevator and then having to be redeemed out of the elevator with a PIK certificate by the cattle people. But perhaps PIK and roll was never used in that way, in that method. Is that possible?

Mr. **Keys**. No, it has been used in that method. I think that what they were trying——

Senator **Melcher**. I mean, the method that you described with it going from the combine by the producer's truck to the feedlot and dumped off there.

Mr. **Keys**. We had that process last October 1 to December 31 on feed grains.

Senator **Melcher**. You did have it?

Mr. **Keys**. Of course, at that period of time we are moving feed grains directly out of the field in a high moisture state into the feedyards. That was a program that we initiated with the USDA, but they discontinued that.

Senator **Melcher**. Well, what does the Secretary tell you as to why he does not want to do this with wheat in Kansas right at this moment?

Mr. **Keys**. Right now we have the director of ASCS asking some lawyers, is it going to be possible. Unfortunately, we are having—I imagine some of the opposition will be from the grain elevator.

Senator **Melcher**. Well, if there is enough wheat to pile on the ground, or barley and wheat to pile on the ground in our case, as was the case last year in Montana, I would think it would be better to have it in a feedlot and it would be better cared for than just dumped on the ground somewhere outside, adjacent to an elevator.

Mr. **Keys**. And in that case, it usually does just become feed wheat when it is dumped outside because the quality of the wheat is lowered considerably.

Senator **Melcher**. It becomes less than that in some cases. You wonder whether you could not fence it and just put a bunch of pigs in there, see what they could do with it.

Thank you both very much for your testimony. It is very helpful to us and very instructive.

Mr. **Openshaw**. Thank you.

Senator **Melcher**. Our last witness today is Donald Giffey, chairman of Harvest States Cooperatives, representing the National Council of Farm Cooperatives from Roseglen, ND.

STATEMENT OF DONALD F. GIFFEY, CHAIRMAN OF THE BOARD, HARVEST STATES COOPERATIVES, REPRESENTING THE NATIONAL COUNCIL OF FARMER COOPERATIVES, ROSEGLEN, ND

Mr. **Giffey**. That is correct, Senator.

Senator **Melcher**. Before you begin, Donald, let me tell you that Senator Conrad wanted to be here and unfortunately cannot. He was here, as you saw earlier, but wanted me to let you know that he looks forward to seeing you this afternoon. I guess you are old friends.

Mr. GIFFEY. That is correct. I knew him when he was a small boy.

Senator MELCHER. Go ahead, Donald.

Mr. GIFFEY. Mr. Chairman, you have already stated my name, but I will repeat it. My name is Donald Giffey. I am a Roseglen, ND, grain farmer, and as you indicated, chairman of the board of directors of Harvest States Cooperatives of St. Paul, MN. And I guess everyone might not know the name Harvest States, but our predecessor was GTA, or Grain Terminal Association.

Harvest States is a regional grain marketing, processing and supply cooperative that is owned by, and serves more than 500 local grain elevators and approximately 180,000 farmer patrons. Harvest States is a member of the National Council of Farmer Cooperatives.

I have a prepared statement that I wish to file with the committee, Senator.

Senator MELCHER. Yes, it will be made part of the record.

Mr. GIFFEY. The statement documents what I see as some of the successes of the Food Security Act of 1985, and suggests further benefits that I believe can be accomplished by implementing some additional provisions. I suggest additional provisions, not major changes.

Specifically, Mr. Chairman, we at Harvest States and the National Council of Farmer Cooperatives were supporters of the marketing loan concept from the early discussions of the 1985 farm act. We were disappointed that at least some of the major grain commodities produced in the area served by Harvest States was not included in the marketing loan concept.

We are pleased, however, that some commodities were given opportunity to participate in this marketing concept, and I believe the results are encouraging for expanding the concept to other commodities. However, several of Harvest States major commodities were included in the Export Enhancement Program.

And I wish to give you specific, positive results this program generated as it affected our marketing system and its farmer patron members. My figures that I will be giving you are for the first 11 months of our fiscal year.

Durum wheat was one of the commodities that was included in the Export Enhancement Program, and in my opinion was treated very kindly. As you know, Mr. Chairman, Durum wheat is raised in your great State of Montana and also is a major crop in my State of North Dakota. The handle for Harvest States during this 11-month period for Durum wheat because it was included in the Export Enhancement Program was up 54 percent. It was moving at a very substantial rate.

Harvest States had loading agreements with Union Equity of Enid, Oklahoma to load 18 cargos of Durum in the first 3 months of 1987 in the Gulf. Beginning in April we begin shipping out of our own terminal at Superior, Wisconsin. In addition, our Durum mill division and Harvest States contracted for processed Durum—semolina—to be shipped in sacks to a north African country.

The results, instead of this mill running a 4- or 5-day run each week, our mill ran 24 hours a day and 7 days a week through May 31 to fill this export contract. This created additional jobs and additional freight revenue. Our company made a profit and Durum farmers easily received 75 cents to $1 above loan rates, a very successful program.

Feed barley was another commodity that was included in the Export Enhancement Program. The handle at Harvest States was up 122 percent from the previous year. Harvest States had so much feed barley being loaded off the Pacific Northwest that we opened our large export terminal at Kalama, WA, which had been closed due to lack of volume and had been in a storage mode.

Once again, additional employees, freight revenue, and lots of business activity in our country elevators, and 25 cents to 50 cents per bushel additional price for the barley producer.

White wheat from the Pacific Northwest, another commodity that received export enhancement help. The handle at Harvest States was up 80 percent from the previous period.

Hard Red Spring wheat received some export enhancement. The wheat growers talked about the China contract and so on, and that was up 34 percent at Harvest States in the same period.

On the other hand, Harvest States handle of corn, which received no export enhancement was down 22.6 percent. Now this is for the first few months of 1987 when we received the most benefit of this, and I was pleased to hear the optimistic projections of Mr. Hora who suggested that maybe the future was just a bit brighter for corn. I certainly hope it is.

We are only one of the exporting grain companies, but I am sure the results are similar for other companies. And I believe the figures I have just shared with you prove that the program moves grain. I am not suggesting that Export Enhancement Programs are the complete long range answer to the agricultural economic problem, but the program does have a positive effect where used.

I truly believe a very positive move would be to include a few more substantial specialty crops in an enhancement program to aid those farmers who were either "left out" or "cut short" when major crop bases were established. And Mr. Chairman, what I mean there is, even in wheat country some farmers during this base period were probably involved in some other crops for economic reasons and now have a very small base of the major crops.

Yes, there is a cost to these programs, but there is also a cost to storing these large supplies of grain; 36 cents per bushel per year in commercial storage plus "in" and "out" charges, terminal charges, plus shrink, spoilage that you have talked about, and investment costs by Commodity Credit.

There are those who suggest a mandatory supply management program with relatively higher support levels. This type of program worked well in the 1930's for my father. Our production was priced and consumed at home. Today we are a major part of the world market. Our products must be priced near this world price and necessary price enhancements made when necessary to be competitive.

We must be a regular, dependable supplier of agricultural products to the world, not the residual supplier we have been a few years ago. I believe the Food Security Act of 1985 is having positive effects on the farm economy. It needs to continue to have the flexibility of the Export Enhancement Program, Targeted Export Assistance Program, Public Law 480, and so forth.

My thanks to you, Mr. Chairman, and to the members of your subcommittee on behalf of the people of Harvest States and the National Council. We appreciate your continuing effort to look for a better way to give the American farmers the security they are entitled to, and at the same time protect the American consumer. We at Harvest States and the National Council believe in a production type agriculture. We want to keep rural America alive and viable.

I thank you, Mr. Chairman. That concludes my oral testimony.

[The prepared statement of Mr. Giffey follows:]

STATEMENT BY
DONALD F. GIFFEY
CHAIRMAN OF THE BOARD
HARVEST STATES COOPERATIVES

REPRESENTING THE NATIONAL COUNCIL OF FARMER COOPERATIVES BEFORE THE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES OF THE SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE

Mr. Chairman, my name is Donald Giffey and I am a wheat and barley producer from Roseglen, North Dakota. I also serve as the Chairman of the Board of Harvest States Cooperatives which is a member of the National Council of Farmer Cooperatives on whose behalf I appear today. The National Council is a nationwide association of cooperative businesses which are owned and controlled by farmers. The membership of the National Council represents about 90 percent of the nearly 5,800 local farmer cooperatives in the nation, with a combined membership of nearly 2 million farmers.

Three years ago in preparation for the debate on farm legislation to replace the expiring Agriculture and Food Act of 1981, the membership of the National Council sought a legislative proposal which would achieve some very basic objectives.

- It must enhance the competitive position of U.S. agricultural products in domestic and foreign markets and change our role as a residual supplier in the marketplace. In doing so it must assure more orderly marketing of U.S. products and relieve the burden on U.S. farmers of having to make all of the production adjustments to bring world supply and demand into balance.
- It must maintain farm income and protect the economic well-being of the farmer.
- It must ensure a dependable, high quality supply of food and fiber at reasonable prices to the American consumer.

The Food Security Act of 1985 was a compromise of alternative approaches and budget realities. In a large part it reflected the leadership of the chairman and other members of this committee in protecting the interests of the U.S. farmer. We can all agree that it was not a perfect piece of legislation, but the test is how well it is working. There are signs that some progress is being made.

- Net cash income to the farm sector remains at record levels despite sharply lower crop prices.

- While government payments are offsetting some of the reductions in crop marketing receipts, a large part of the improvements in incomes has come from a drastic reduction in production expenses. Expenses have been reduced by over 10 percent in just two years. The first significant declines in expenses since the early 1950's.
- Farm asset values have stabilized after declining nearly 30 percent since 1981.
- Farm debt continues to decline and the total value of farm equity may stabilize or increase for the first time since 1981.
- The value and volume of agriculture trade has begun to recover with significant assistance from government programs such as the Export Enhancement Program, the Targeted Export Assistance Program, PL 480, etc.
- The total farm value of U.S. produced foods purchased by consumers is now less that it was in 1981. The consumer has been a significant beneficiary of the Food Security Act of 1985.

While these are all positive signs, they merely suggest we are going in the right direction. There remain significant problems for both the farmers and the rural communities of which they are an integral part. Significant amounts of acreage continue to be idled, Government program costs are in excess of $25 billion per year and grain stocks, although not likely to increase significantly in 1988, are at excessive levels. A restructuring of agriculture, the rural communities and the input, processing and marketing infrastructure is continuing and difficult adjustments are still ahead depending on the economic environment of the next few years.

In this regard I want to commend the you for holding these hearings to review the status of the farm programs. We have learned a difficult lesson with regard to how fast the situation can change when we must deal in a complex global environment and constant monitoring of programs and policies is now a prerequisite for survival.

These are difficult times for U.S. agriculture and important adjustments are occurring. The results to date do not suggest any major changes in the 1985 Act are needed. In fact, some stability in the farm policy area is essential to enable farmers to make the necessary long term adjustments. Obviously, legislation on trade, farm credit and budget reconciliation are of vital interest to farmers. However, at this time it does not seem necessary to significantly alter the basic farm programs.

Key Indicators of the Food and Fiber Economy

		1981	1983	1985	1986	1987
Financial Indicators						
Total Farm Receipts	Bil. $	144	141	149	139	132
Crops	Bil. $	73	67	73	63	55
Livestocks	Bil. $	69	70	69	71	72
Direct Payments	Bil. $	2	9	8	12	16
Prod. Expenses	Bil. $	139	140	136	125	120
Net Cash Income	Bil. $	33	37	44	49	50
Farm Assets	Bil. $	1,005	957	771	711	711
Farm Debt	Bil. $	189	202	192	177	158
Farm Equity	Percent	816	754	579	534	553
Debt-to-Assets	Percent	19	21	25	25	22
Total Ag Exports						
Volume	M.M.T.	162	145	126	110	128
Value	Bil. $	44	35	31	26	28
Under Government Programs	Bil. $	3.4	5.6	4.6	4.9	6.0
Grain Stocks						
Total Grains	M.M.T.	80	159	105	193	225
Stocks-to-Use	Percent	24	45	31	61	65
Acreage Reduction						
Annual Programs	Mil Acres	0	78	31	44	55
Cons. Reserve	Mil Acres	----	----	----	2	17
Total	Mil Acres	0	78	31	46	72
CCC Outlays						
Feed Grains	Bil. $	-0.5	6.8	5.2	12.2	13.1
Wheat	Bil. $	1.5	3.4	4.7	3.4	3.8
Cotton & Rice	Bil. $	0.5	2.0	2.5	3.1	2.3
Soybeans	Bil. $	0.1	0.3	0.7	1.6	.8
Dairy	Bil. $	1.9	2.5	2.1	2.3	1.3
Total	Bil. $	4.0	18.9	17.7	25.8	25.3
Food Costs						
Retail Price	% Change	7.7	.9	1.2	2.2	1.4
Farm Value	% Change	2.8	-2.2	-7.1	-1.3	2.1
Farm Share	Percent	36	33	31	30	30

These are two areas which require constant review. They relate to the export programs and the marketing loan authorities. To maintain agriculture as a viable and growing sector of the U.S. economy, it is critical that we reestablish our competitive position in world markets. This may take the form of countering unfair trade practices or ensuring that the realities of the market are felt by foreign competitors and U.S. producers as equally as possible.

With regard to the export programs, it is important to recognize the large role they now play for U.S. exports. It appears that exports under various government programs now represent in excess of 20 percent of total agricultural exports in terms of value. With continuing large surpluses, the weak economic condition of the world economy and the continued competitor reliance on unfair trade practices, it is essential that these programs be maintained as an integral part of the 1985 Food Security Act. I want to commend the Chairman and other members of this committee for their strong support of these programs to augment the efforts in other areas to bring world and U.S. prices into better balance. The marketing loan for rice and cotton has revitalized the rural economies of those areas. The movement of grain stimulated by these export programs has had a similar effect in other regions of this country.

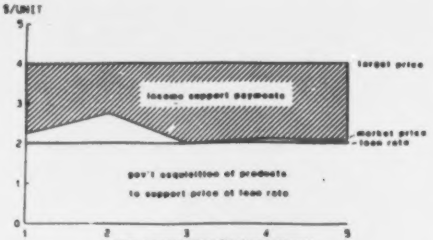
U.S. Agricultural Exports, Commercial and Concessional FY60-87

	Export Credit Program (GSM)	PL 480	EEP	Direct CCC Sales	Total Programs	Total Ag Exports	Program Exports As % Of Total
	---------------million			dollars----------	----------	-------	Percent
1960	1	1,300			1,301	5,520	28
1970	210	1,070			1,280	6,960	18
1980	2,100	1,500		40	3,640	40,500	9
1981	1,860	1,500			3,360	43,780	8
1983	4,070	1,480			5,550	34,780	16
1985	2,725	1,840			4,565	31,200	15
1986	2,420	1,520	800	110	4,850	26,300	18
1987	3,500	1,470	920	150	6,040	27,500	22

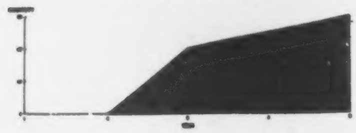
The second issue relates to the marketing loan authorities in current law. After a thorough review of the options available, the membership of the National Council endorsed the concept of the marketing loan. Very simply, the marketing loan proposal modifies the traditional nonrecourse loan program by permitting repayment of the commodity loan at the prevailing market price. However, this simple modification has significant impacts on all segments of the food and fiber system and the economy in general. The following summary highlights the operation and implications of the marketing loan.

COMPARISON OF MARKETING LOAN AND NONRECOURSE LOAN PROGRAMS

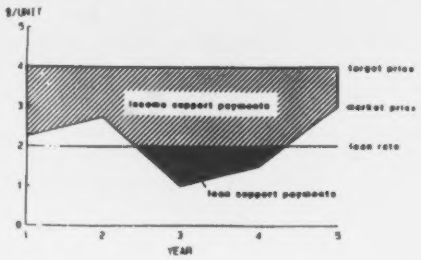
TRADITIONAL NONRECOURSE LOAN PROGRAM



GOV'T ACQUISITION OF COMMODITIES



MARKETING LOAN PROGRAM



OPERATION

In a given year, farm prices are maintained at or above loan rates through forfeiture of commodity to the government. Producers will market their products commercially only if the market price exceeds the potential loan revenue. Producers receive income support payment and may put entire crop under loan and store for government.

Acreage programs are used to limit supply/demand balance in given year.

The marketing loan does not dictate higher or lower prices. Prices adjust until the market is cleared. There is no government stock takeover except those desired for food security. Producers receive income support payments and will retain loan support equal to difference between loan rate and market price. Producer income is generated by marketing the product.

Acreage programs are used to maintain supply/demand balance in given year. Because of greater market price flexibility, participation rates are higher and acreage programs more effective.

FARMER INCOME

Farmer receives support payment based on difference between target and market price. He will receive market price for what he sells and loan rate for what he forfeits. Farmer's income is total of market receipts, government loan proceeds, income support payments and storage and handling revenues paid by government.

Farmer receives support payment based on difference between target and market price. He receives market price for the sale of his crop and when he repays the loan he may retain loan proceeds equal to difference between the loan rate and the market price if prices are below the loan rate. Income is generated by marketing the crop not storing it. Farmers' total crop receipts from all sources are the same under both options.

TRADITIONAL NONRECOURSE LOAN PROGRAM	MARKETING LOAN PROGRAM
DOMESTIC CONSUMERS	
Consumer pays prevailing market price which cannot be below loan level.	Consumer pays prevailing market price which may decline below the loan level to encourage greater consumption in surplus conditions.
FOREIGN CONSUMERS	
Foreign consumer pays the same price as U.S. consumers for U.S. products but less than U.S. counterpart for non-U.S. products since competitors price just under U.S. support level. If U.S. offers bonuses to reduce price then foreign consumers receive even lower prices then domestic consumers for U.S. products.	Foreign consumer pays same price as U.S. consumers. Since market price will reflect price cutting efforts of competitors.
TAXPAYERS	
Pay for income support payments, loan forfeitures and storage and handling of commodity until such time that crop can be released.	Pay for income support payments and loan support payments. But loan support payments will be equal to consumer savings on food costs if lower prices are passed on to consumers. Storage and handling costs will be sharply reduced as stocks are liquidated.
RELATED INDUSTRIES	
The income and employment potential for input suppliers and processors of farm products is tied to the capacity utilization of agriculture and the size of the consuming market. Reliance on idling acreage and storing commodities to support prices above marketing clearing levels limits the potential of related industries such as fertilizer, chemical, transportation and food processing.	The income and employment potential for input suppliers and processors of farm products is tied to the capacity utilization of agriculture and the size of the consuming market. Reliance on market prices to clear the available volume means greater potential employment and income for all related industries.
RURAL COMMUNITIES	
The rural community is a reflection of the level of farm activity. If movement of commodity is reduced and productive capacity is reduced, the corresponding employment, income and tax base is eroded.	The rural community is a reflection of the level of farm activity. Sustained movement of commodities maintains the related industries and the employment, income and tax base on a continuing basis through surplus or tight market conditions.
FOREIGN COMPETITORS	
Foreign competitors have a price guaranteed by U.S. farm policy, i.e. loan rate. U.S. will make all adjustments to ensure price and competitors need only price just below the rate to market their entire output.	Foreign competitors now face price risks and burden of adjustment to surplus conditions. Downward flexibility in prices means no guaranteed market outlet and unlimited budget exposure on subsidies or domestic supports. Factors which will force market adjustments.

With the leadership and support of many members of this Committee, the Food Security Act of 1985 mandated the marketing loan for rice, cotton and honey and provided discretionary authority for its use for wheat, feedgrains, and soybeans. During the farm bill debate quantitative assessments of the impact of various options, including the marketing loan, were readily available. Unfortunately they were rarely in agreement. Now we have the experiences of the rice, cotton and honey industries as case studies of the marketing loan.

In each case the turnaround has been dramatic (Table 1). Total use for rice has increased by 22 percent with exports up 36 percent. Stocks have declined by 19 percent. Cotton use is up 67 percent with an over three-fold increase in exports. Honey use is up and imports, which had forced domestic honey production into government stocks in previous years, will be down by 30 percent. Stocks have declined by 11 percent, and the disparity between the prices of imported and domestic honey has disappeared.

At the same time the trend in budget outlays has been reversed. The Administration recent budget estimates for fiscal year 1988 indicate that total outlays for these commodities will be nearly $1.5 billion less than in fiscal year 1986.

This is in sharp contrast to the situation in grains and oilseeds (Table 2) where usage has increased relatively little and stocks remain large and are continuing to build. Additionally, CCC outlays for these crops remain in excess of $14 billion and the annual CCC costs for storage and handling is projected to reach $1.8 billion in fiscal year 1988 compared to around $400 million in fiscal year 1985.

Despite price declines of 22 percent for wheat, 30 percent for corn and 5 percent for soybeans, due to lower nonrecourse loan rates, stocks have continued to build and total usage of grains and soybeans is only up about 5 percent. Total grain and soybean stocks have increased by nearly 20 percent 1986/87 alone. More importantly, since 1984/85 U.S. grain and soybean stocks have grown dramatically while the rest of the world has experienced only modest increases in their stocks.

	1984/85	1986/87	% Change
	----------million metric tons-------		
Ending Stocks			
U.S.	105	225	215
Foreign	146	170	+16
Total	251	395	+57

Acreage adjustments for wheat, feedgrains and soybeans have been equally one-sided. While U.S. wheat and feedgrain harvested acreage declined by 14 million acres in 1986/87, foreign acreage increased by over 7 million acres. U.S. soybean acreage declined about 2 million acres in 1986/87 while foreign acreage has increased by 3 million acres.

Table 1. **Marketing Loan Commodities**

		84/85	85/86	86/87 1/	% Change
				RICE	
Domestic Use	Mil Cwt.	60.5	65.8	71.3	+8
Exports	Mil Cwt.	62.1	58.7	80.0	+36
Total Use	Mil Cwt.	122.6	124.5	151.3	+22
Stocks	Mil Cwt.	64.7	77.3	62.6	-19
Price	$/Cwt.	8.04	6.53	3.85	-41
				COTTON	
Domestic Use	Mil Bales	5.5	6.4	7.3	+14
Exports	Mil Bales	6.2	2.0	6.7	+335
Total Use	Mil Bales	11.7	8.4	14.0	+67
Stocks	Mil Bales	4.1	9.4	5.2	-45
Price	Cents/lb	57.8	56.5	52.2	-8
				HONEY	
Domestic Use	Mil Lbs.	262	304	323	+6
Imports	Mil Lbs.	141	135	95	-30
Gov't. Stocks	Mil Lbs.	253	274	243	-11
Price - Domestic	Cents/Lb.	45.5	43.0	38	-12
Imports	Cents/LB.	35.1	42.0	38	-10
Loan Rate	Cents/Lb.	65.3	64.0	63.0	-2

1/ Projected

Table 2. Non-Marketing Loan Commodities

		84/85	85/86	86/87[1/]	% Change
				WHEAT	
Domestic Use	Mil Bu	1,154	1,046	1,134	+8
Exports	Mil Bu	1,424	915	1,025	+12
Total Use	Mil Bu	2,578	1,960	2,159	+10
Stocks	Mil Bu	1,425	1,905	1,848	-3
Prices	$/Bu	3.39	3.08	2.40	-22
				FEEDGRAINS	
Domestic Use	M. M. T.	163.2	169.8	6.3	+4
Exports	M. M. T.	56.6	36.6	45.2	+23
Total Use	M. M. T.	219.8	206.4	221.6	+7
Stocks	M. M. T.	57.5	126.4	157.8	+25
Prices (Corn)	$/BU	2.63	2.23	1.50	-30
				SOYBEANS	
Crushings	Mil Bu	1,030	1,053	1,160	+10
Exports	Mil Bu	598	740	700	-5
Total Use	Mil Bu	1,721	1,879	1,963	+4
Stocks	Mil Bu	316	536	580	+18
Prices	$/Bu	5.84	5.05	4.70	-5

[1/] Projected

The excess production of our competitors has moved into world trade channels and eroded the U.S. share of world markets. While cotton and rice have experienced significant rebounds in this market share, the grains and soybean industries have not approached the share enjoyed in the early 1980's.

U.S. Share of Trade

	80/81	81/82	82/83	83/84	84/85	85/86	86/87
	percent						
Wheat	45	48	40	38	36	29	31
Coarse Grains	64	61	60	61	55	44	54
Soybeans	56	60	57	50	41	49	47
Cotton	30	33	27	35	30	10	29
Rice	23	21	20	17	17	19	20

A review of the far reaching potential of the marketing loan clearly indicates that benefits accrue throughout the food and fiber sector and the economy in general. While a great deal of attention during the debate was focused on the budgetary exposure of the proposal, the far reaching implications and costs for the overall economy of using storage and acreage programs to support prices may have been underestimated.

The importance of agriculture to the general economy is depicted in Figure 1. The farm sector is linked to the larger economy in a network of input purchases and product sales. Farmers buy inputs such as equipment, supplies, feed, seed, fertilizer, labor, and financing from what can be termed "Upstream" sectors. In turn, farmers sell their products to "downstream" sectors which store, process, transport, manufacture, distribute, retail, consume, or export the products. For some commodities, like cotton, these chains are very long. Cotton may be ginned, spun into thread, woven into fabric, manufactured into garments, and sold in retain stores. For grain destined for storage or export, however, the chain can be short, ending with transport to a central terminal or port or in more recent times simply remaining in farm storage.

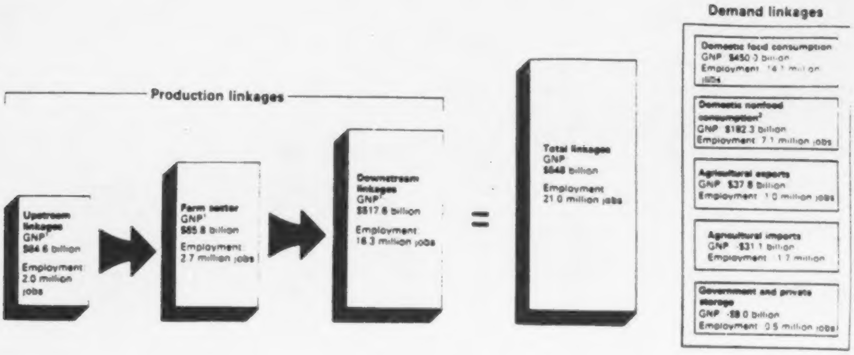
Looking at this flow so as to focus on the farm sector, $1.00 in farm activity was linked upstream to $.64 in input activity and downstream to $3.20 in further-processing activity if the product in question was ultimately consumed domestically.

This total linkage accounts for 18 percent of the U.S. Gross National Product and over 20 million jobs. The statement that agriculture accounts for 18 percent of the United States' GNP refers to the entire complex of agribusiness activities from the beginning to the end of the stream. Farming alone accounts for 2 percent of total GNP, while upstream activities account for another 2 percent and downstream activities for 14 percent.

Describing these same linkages in employment terms, the 21.0 million jobs involved in meeting consumer and export demand and storing surplus farm products in 1984 were comprised of 16.3 million jobs downstream, 2.7 million jobs on the farm, and 2.0 million upstream.

Figure 1

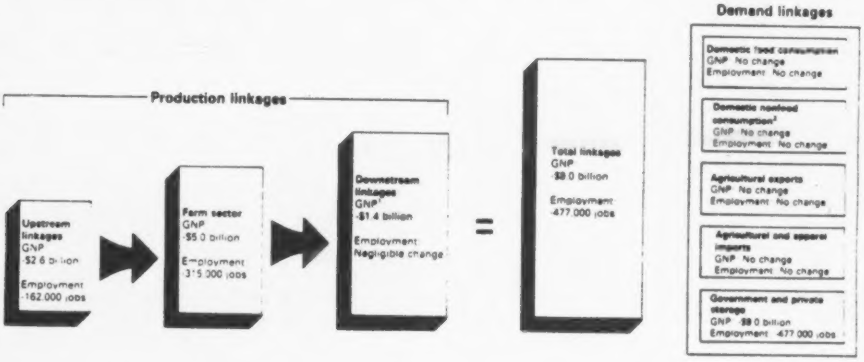
Agricultural Sector GNP and Employment Linkages, 1984


Production linkages
Upstream linkages
GNP[1]
$84.6 billion
Employment
2.0 million jobs
Farm sector
GNP[1]
$85.8 billion
Employment
2.7 million jobs
Downstream linkages
GNP[1]
$817.6 billion
Employment
16.3 million jobs
=
Total linkages
GNP
$648 billion
Employment
21.0 million jobs
Demand linkages
Domestic food consumption
GNP $450.0 billion
Employment 14.1 million jobs
Domestic nonfood consumption[2]
GNP $182.3 billion
Employment 7.1 million jobs
Agricultural exports
GNP $37.8 billion
Employment 1.0 million jobs
Agricultural imports
GNP -$31.1 billion
Employment -1.7 million
Government and private storage
GNP $8.0 billion
Employment 0.5 million jobs

[1]Scaled to level of demand to correct for small errors introduced in calculation.
[2]Clothing, shoes, tobacco, cut flowers, seeds, and potted plants.

Figure 2

How a Small Acreage Reduction Program Would Change Agricultural Sector GNP and Employment


Production linkages
Upstream linkages
GNP
-$2.6 billion
Employment
-162,000 jobs
Farm sector
GNP
-$5.0 billion
Employment
-315,000 jobs
Downstream linkages
GNP[1]
-$1.4 billion
Employment
Negligible change
=
Total linkages
GNP
-$8.0 billion
Employment
-477,000 jobs
Demand linkages
Domestic food consumption
GNP No change
Employment No change
Domestic nonfood consumption[2]
GNP No change
Employment No change
Agricultural exports
GNP No change
Employment No change
Agricultural and apparel imports
GNP No change
Employment No change
Government and private storage
GNP -$8.0 billion
Employment -477,000 jobs

[1]Scaled to change in demand to correct for small errors introduced in calculation.
[2]Clothing, shoes, tobacco, cut flowers, seeds, and potted plants.

In the context of this broader view of agriculture, the decision to idle acreage or implement storage incentives can be costly to the economy at large. Based on an analysis by the U.S. Department of Agriculture, a small acreage reduction program (30 million acres) can cost the overall economy $9 billion in lost economic activity and 477,000 jobs (figure 2). Virtually all of this lost economic activity and employment would occur in the rural communities which are supported by farmers. To the extent that such programs succeed in forcing domestic prices higher, it increases the financial incentive for importing foreign products. In 1984, imported agricultural products cost the U.S. economy about 1.7 million jobs and over $30 billion in economic activity.

The debate over whether the marketing loan will or will not work for grains and oilseeds and the likely budget exposure will continue. In the interim we find a situation in which:

- U.S. grain and oilseed prices are still above market clearing levels and we are being undercut in world markets.
- The U.S. is accumulating stocks rapidly to support prices at fixed loan rates. Since 1984/85 U.S. stocks of wheat and coarse grain have more than doubled while foreign stocks have only increased by 14 percent.
- The total acreage idled under the annual programs and long term reserve is approaching 80 million acres.
- Soybean loan rates under the provisions of the Food Security Act of 1985 will increase for the 1987 crop from levels that even now are not competitive.
- Foreign consumers are being offered U.S. products at lower prices than U.S. consumers.
- Budget savings are being sought by directly reducing farmer incomes or increasing the size of acreage programs.

The experience with cotton, rice and honey are evident and are not a projection. Perhaps it is time to seriously consider whether the sacrifices being made in agriculture and in the rural communities are worth the implied budget savings some attribute to not implementing the marketing loan. Surely the burden of proof should now be with those who oppose its implementation, rather than those who have advocated its use for some time.

Mr. Chairman, I would like to conclude by commending you and the Committee for holding these hearings. We would all like to return prosperity U.S. agriculture while no one has a magic wand, you are to be commended for continuing to search for an answer.

Senator MELCHER. Donald, I earlier commented to Carl Schwensen of the National Wheat Growers that we lost exports over the past several years. And I think I mentioned that I had a delegation representing the wheat millers of the Philippines in my office this week. For 10 years the Philippines never imported any wheat except American wheat. And then over the last several years they have been tinkering with purchasing wheat from other countries.

And it is pretty aggravating to me to see us lose a market that by all accounts would be a growing market for our wheat. First of all, they cannot produce any wheat in the Philippines, and second they like it. Now we see Canada move in, and maybe some other countries too, and price it lower than what our Department of Agriculture is talking about.

The Export Enhancement Program works, does it not?

Mr. GIFFEY. It certainly does.

Senator MELCHER. Your testimony seems to affirm that.

Mr. GIFFEY. Yes, sir. As you look at our statement of operations, and that is where I got these figures, you can just go down and pick the commodities that received export enhancement help, the bushel handle is up in those. And those that did not receive the help, the bushel handle was either stagnant or down, as I indicated.

Senator MELCHER. Do you raise Durum?

Mr. GIFFEY. Yes.

Senator MELCHER. Do you raise all Durum?

Mr. GIFFEY. Yes.

Senator MELCHER. Aren't you lucky?

Mr. GIFFEY. Yes. And I also raise feed barley, so I was very lucky. And I wish all of the farmers would be as lucky.

Senator MELCHER. It has interested me that this group of wheat millers from the Philippines is interested in Hard Red Winter wheat. They have not used it. And they have got some now, a small quantity. I forget what they told me, but it was a very small quantity of wheat on which they arranged separate shipment so they can test it as blending in with the other wheat they use for its milling qualities.

What have you done, what has Harvest States done recently to let this administration know that we want to export this wheat, and get rid of it, and get it it out of storage and get it into somebody's stomach?

Mr. GIFFEY. We do make the contacts, Mr. Chairman. I have signed letters myself to the administration, to the Secretary as the chairman of the board. We do have one person on staff that is our government affairs, Mr. Boos, George Boos. You used to have him in Montana.

Senator MELCHER. Yes, I know about that.

Mr. GIFFEY. He is down in Washington a lot here, making the contacts and so on.

Senator MELCHER. Tell him to pound on the table a lot harder.

Mr. GIFFEY. I think we have found a way, if we can just implement it. And I realize it costs money, but as I indicated, it costs money to store these crops, too, and let it spoil on you. So you ought to move it out to people.

Senator **Melcher**. Immediately. One other thing, Donald. As you have described, Harvest States used to be called GTA. The position you have taken on mandatory acreage and mandatory prices is different than GTA took 10 years ago, is it not?

Mr. **Giffey**. That is correct. So is our membership, Mr. Chairman.

Senator **Melcher**. Is it as dramatic as you have described? It worked for your father, but you do not think it would work now? Is it that clear cut?

Mr. **Giffey**. Back when my father was farming and I was a much younger man, those mandatory acreage and high price supports, were very good. They were so much better than the old open market of the early 1930's. And I know my dad hauled grain at 26 cents a bushel to pay a life insurance premium of $101—ridiculous.

And I think the first loan that he got under the Agricultural Adjustment Act was about 85 cents a bushel, and to him and to all other farmer it was a tremendous improvement. He was willing to cut his acres. Of course, we are doing that now, but he was willing to do the mandatory cut to get this protection.

But just basically, we were a domestic producer and a domestic consumer of our products at that time. The export market was not so important to us.

Senator **Melcher**. Well, the 1985 farm bill, as far as we are concerned, was passed with a clear understanding that unless exports were going to pick up the farm program was not going to work for wheat. And I believe that is true, is it not?

Mr. **Giffey**. I would say it is correct.

Senator **Melcher**. I am not going to speak as clearly about corn because we have to export a little over 70 percent of the wheat crop per year to dispose of it. Or as the National Cattlemen's Association just testified, allow it to be cheap enough to get into feedlots where we could consume more of it running it through cattle or hogs or poultry.

Corn producers said they thought if we did realize a 1.6 billion bushel export of corn this year it would be not just a significant improvement, but would be getting us back into the range of what we are supposed to export of the corn crop. But that is only a little over 20 percent of the corn crop. So there is a vast difference between that and wheat.

And I suspect that the same is true of barley. A small percentage of it would actually go into export even if we had a good export year compared to the percentage of wheat that must go in.

I think the program for wheat has failed simply because we have not been able to do anything like what would have to happen in exports. It seemed like in 1986 we saw a further decline, and I suspect this calendar year that the exports will certainly pick up some in wheat because of export enhancement.

Are you satisfied with the certificate program? Do you think it is beneficial?

Mr. **Giffey**. It seems to have worked well. It has worked well for the Giffey farm. It worked better than I thought it was going, I will tell you that, Mr. Chairman.

Senator **Melcher**. All right.

Mr. **Giffey**. There has been a lot of flexibility in that program. People have used it to advantage, and I think it has been a good program.

Senator **Melcher**. Has it helped Harvest States, as an entity separate from the producers?

Mr. **Giffey**. Not to large amounts, but we did have a profitable year in the trading of certificates. As we buy them and sell them, we take a markup on them and we do have a number of elevators that Harvest States owns. As you know, Mr. Chairman, we have a number in your State. And we picked up some money.

I understand some grain companies maybe made huge amounts. We did not. We cooperated very much with our affiliates, our local elevators and helped them wherever we could because they are the owners of Harvest States and so some of them did very well.

Senator **Melcher**. All right, thank you very much, Donald.

Mr. **Giffey**. Thank you.

Senator **Melcher**. The National Peanut Growers Group will submit a statement on behalf of peanut producer groups in nine States, and that will be made part of the record. We will leave the record open for 10 days for any other commodity group or person or company or association that might like to submit a written statement.

The subcommittee is adjourned.

[Whereupon, at 12:43 p.m., the subcommittee adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

June 30, 1987

The Honorable John Melcher
United States Senate
Washington, DC 20510

Dear Senator Melcher:

I am enclosing a copy of the written testimony by the National Peanut Growers Group (NPGG) and respectfully request that it be inserted into the hearing record of the Subcommittee on Agricultural Production and Stabilization of Prices.

As Chairman for the NPGG, I would like to express my appreciation to you for holding these important hearings. As we stated in our testimony, the vast majority of the peanut farmers of this nation feel that the Congress has crafted a program for peanuts which is working, and we appreciate the opportunity to go on record testifying to that point.

Please feel free to call upon us at any time that you feel we may be of assistance to you or your subcommittee. Again let me express my thanks to you for allowing us to submit this testimony for the record of your subcommittee.

Sincerely,

James Earl Mobley

James Earl Mobley, Chairman
National Peanut Growers Group

STATEMENT OF THE NATIONAL PEANUT GROWERS GROUP SUBMITTED TO THE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES OF THE U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY. JUNE 30, 1987.

The National Peanut Growers Group (NPGG) appreciates the opportunity of submitting this statement to the Senate Subcommittee on Agricultural Production and Stabilization of Prices for its hearing record on the status of farm programs. NPGG represents 12 peanut grower organizations in nine states that produce most of the commercially-grown peanuts in the United States: Alabama, Florida, Georgia, New Mexico, North Carolina, Oklahoma, South Carolina, Texas, and Virginia. A list of the NPGG member organizations is attached to this statement.

The peanut provisions of the Food and Security Act of 1985 are working extremely well and all goals of the program are being met.

Briefly, the peanut program as formulated in the 1985 Act directs the Secretary of Agriculture each year to estimate the needs of domestic markets for peanuts and to support them at a marketable price. This quantity of peanuts is then allocated to individual producers who produce them for domestic markets. No grower is permitted to sell more peanuts for domestic consumption than those allocated by the Secretary.

Domestic consumption of peanuts and peanut products have increased steadily since 1980, and the average price for domestic edible use frequently has been above the support level. In addition, any farmer can produce as many additional peanuts as he wishes for the export markets, or for crushing for oil and peanut meal. Under the Act, these additional peanuts receive a price support set by the Secretary at a level which will constitute no cost to the government. This price is considerably below the cost of production.

Thus, the system of production and marketing provides that all peanuts grown in the United States are planted with the expectation that they will be of sufficient quality to enter the domestic edible or the edible export market. The stimulus is for producers to grow and contract their production with the shellers or manufacturers of edible peanut products.

The peanut program is a finely-tuned, supply-management mechanism that has evolved over many years and which was further improved by the 1985 Act. It is a unique farm program designed and tailored to meet the special needs of producers, processors, and consumers of American peanuts and peanut products in both the domestic and export markets.

The program works!

-- It assures farmers of an orderly market and the opportunity of a fair return.

-- It allows U.S. peanut producers to compete in the world market, if they so choose and essentially at their own risk, and has made this country the leading exporter of edible peanuts.

-- It assures highest quality standards for both domestic and foreign consumers.

-- It prevents the build-up of costly, price-busting surpluses.

-- And its cost to the taxpayers is infinitesimal in relation to most farm programs -- under $10 million in 1986, the first year under the new law. We believe the net cost of the program will decrease in future years due to the fine-tuning in the legislation and the mandate in the law requiring the Secretary of Agriculture to administer the program at minimum cost.

NPGG recommends that no changes be made in the peanut title of the Food and Security Act of 1985. Indeed, we would resist any attempt to tamper with the program. We are grateful to Congress, and to the Senate Committee on Agriculture, Nutrition, and Forestry, for perfecting and passing the program in 1985. We believe the peanut program should be allowed to operate as Congress intended throughout the life of the 1985 Act.

# # #

The groups which comprise the National Peanut Growers Group are follows:

Alabama Peanut Producers

Florida Peanut Producers

Georgia Agricultural Commission for Peanuts

Georgia-Florida-Alabama Peanut Association

New Mexico Peanut Growers Association

North Carolina Peanut Growers Association

Oklahoma Peanut Growers Association

Virginia Peanut Growers Cooperative Marketing Association

South Carolina Peanut Board

Southwest Peanut Growers Association

Texas Peanut Growers Association

Virginia Peanut Growers Association

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